

July 19, 2012

HOME Grant Modification

Current HOME Grant terms:

Approved 06/2009

Owner-occupant must meet all established loan criteria in order to qualify for and close on a home improvement loan (funded by CDBG). Owner may receive a HOME match grant \$1:\$1 up to \$10,000 if agrees to allow building code inspectors into property to determine if there are any code violations. Owner must agree to address any and all code violations and bring property into compliance. The grant is secured by a promissory note, the terms include verbiage that states owner(s) will:

- Make necessary repairs to obtain code compliance within one year
- continue to occupy the property for a minimum of 5 years
- remain current with all charges regarding the property including all mortgages, property taxes, special assessments, water bill, and homeowner's insurance
- The grant will be forgiven at a rate of 20% per year, upon verification of the above terms (may or may not be secured against equity).

Proposed modification:

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HUD requires an underwriting formula to determine a financial need for the grant, therefore, it cannot be a pre-determined flat amount for all borrowers.

Owner-occupant required to qualify for and take out a home improvement loan, by meeting all established loan criteria. Borrower may be eligible for HOME grant to cover cost of repairs in excess of the approved loan amount; grant not to exceed \$14,999.

The following underwriting guideline will determine grant amount:

Ratios – Ideally would not exceed: housing ratios 40-41%; total debt ratios 44-45%

- Housing ratio – using net monthly income, determine what the housing ratio is – counting only the mortgage, taxes, and insurance (PITI)
- Total debt ratio – using net monthly income, count the housing costs, and add any other monthly liability (credit payments)

Example: *Jane Johnson has a household of 2 people
 The total gross annual income is \$36,321
 The monthly gross is \$3,027 and her monthly net is \$2,179. She has \$12,000 in equity*

Upon calculating her ratios she can afford a \$10,000 loan at 3% interest (monthly payment of \$56.00 for 20 years):

<u>Housing Ratio 43%(high)</u>		<u>Total Debt Ratio 45%</u>	
1 st mortgage	\$883	PITI	\$939
Cd mortgage	<u>56</u>	Credit	<u>57</u>
TOTAL PITI	\$939	TOTAL DEBT	\$994

The cost of repairs, lead based paint remediation and code compliance repairs were determined to be \$21,251, a small contingency and loan fees were added in for a combined total of \$24,999.

Therefore, Jane should be eligible for a \$10,000 loan @ 3% interest and a HOME grant of \$14,999.

The HOME grant will be secured by a promissory note for the exact amount and will be forgiven at a rate of 20% annually over 5 year, and will be recorded.