

City of Clarksville
FIRST-TIME HOMEBUYER PROGRAM

Program Overview:

The City of Clarksville’s First-Time Homebuyer Program is a homeownership program designed to help income eligible households with down payment and closing cost assistance to purchase their first home within the City Clarksville. The program is administered through the Office of Housing and Community Development.

The U.S. Department of Housing and Urban Development (HUD) provides the CITY with funding through the HOME Investment Partnership Program (HOME) for the purpose of expanding or improving affordable housing to lower income residents of Clarksville. The CITY allocates a portion of its annual allocation of HOME funds to offer low interest loans for down payments and approved closing costs to qualified lower income households who want to become homebuyers.

The purpose of this program is to make funds available to qualified persons who wish to purchase a home but need financial support with initial costs. These costs include the down payment, as well as the closing costs and prepaid items required to obtain homeownership. These expenses can add up to a substantial amount, and the inability to cover these costs may prevent many individuals from achieving homeownership.

The Homeownership Assistance offered through the City’s First-Time Homebuyer program is payable in accordance with specific guidelines. Down payment funds provided to first-time homebuyers will be given as a low-interest loan over a 10-year period. Closing Cost provided will be given as a 0% interest forgivable loan forgiven after 10 years as long as the homebuyer remains the owner/occupant. The agreement made between the buyer and the City will be attached to the property under a two Promissory Notes and a Deed of Trust, as a second mortgage loan.

WHO QUALIFIES?

The City’s program is designed to assist families determined to earn income within 50%- 80% of the area median income for Clarksville, Tennessee. The current (2018) median income for a family of four in Clarksville, Tennessee is set at \$57,300. Maximum income limits will be adjusted according to the most recent income figures published by the Department of Housing and Urban Development. Qualifying households would need to meet the following income limits:

2017-18 Adjusted Income Limits							
Number	1	2	3	4	5	6	7
50% AMI	\$19,400	\$22,200	\$24,950	\$27,700	\$29,950	\$32,150	\$34,350
80% AMI	\$31,050	\$35,450	\$39,900	\$44,300	\$47,850	\$51,400	\$54,950

Eligible Borrowers: Households with income between 30-80 percent of the Clarksville-Montgomery County median area income, as adjusted for household size. Gross income will be calculated based on the Homeownership Assistance Program Guidelines. To establish program eligibility, income of all household members 18 years and older must be taken into account. The borrower is required to provide all pertinent information requested by the City.

Borrowers must be first-time homebuyers or those who have not owned or held an interest in a primary residence in the last three years, except the following individual or individuals may not be excluded from this requirement:

- A displaced homemaker who, while a homemaker, owned a home with his or her spouse or resided in a home owned by a spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive twelve month period and who has been unemployed or underemployed, experienced difficulty in obtaining or upgrading employment and worked primarily without remuneration to care for his or her home and family; or
- A single parent who, while married, owned a home with his or her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried and has one or more minor children for whom the individual has custody or joint custody.

Applicants must qualify for a mortgage loan with a local financial institution and their ability to repay that loan as determined by the Office of Housing and Community Development Staff. The house must be located within the city limits of Clarksville. Homeownership Counseling is required for all participants utilizing the program. Please note that this list is not exhaustive and other policies may be established as necessary to protect the interest of First-Time Homebuyer Program.

Eligible Properties: Eligible properties are single family homes, townhouses and/or condominiums located anywhere within the City of Clarksville. The First-Time Homebuyer Program is funded using federal funds. The maximum purchase price for a condominium, townhouse or single family home is \$143,000 for an existing home and \$228,000 for a new home and may be adjusted by the Department of Housing and Urban Development on a periodic basis.

Housing Inspection:

An inspection is required on all properties and must meet the City of Clarksville Housing Maintenance Code. If the property was built prior to 1978, an assessment for lead-based paint is also required. The Inspection is not a complete home inspection and buyers may consider obtaining a full property inspection from a licensed residential property inspector.

Income Qualifying For Eligibility Only:

The combined income of all members of the household who will be living in the property must be included in the determination of income. The household's income must be projected as an annual income. It should be assumed that today's circumstances would continue for the next 12 months, unless there is verifiable evidence to the contrary.

Assets are considered when determining if a household is 80 percent or less of median area income. Liquid assets of all family members, including children, must be considered. If a portion of the assets will be used towards the purchase and have been placed in escrow, they do not need to be considered. If a household has net assets in excess of \$5,000, the gross income shall include the greater of: 1) actual amount of income derived from all the net assets or; 2) current savings passbook rate. Net assets means value of equity in real property, savings accounts, IRA accounts, cash, stocks, bonds and other forms of capital investments. If a household member has access to their retirement account, it must be considered. In the case where retirement account cannot be accessed, the employer must verify this in writing. All households must be income-qualified no more than 90-days prior to the approval date.

Income Calculations for Debt Service:

Program guidelines require that the combined income of all persons on title must be included in the determination of income. The household's income must be projected as an annual income. It should be assumed that today's circumstances would continue for the next 12 months, unless there is verifiable evidence to the contrary.

Debt-to-Income Ratio:

Borrowers monthly housing debt including property taxes, property insurance, and if applicable, mortgage insurance and homeowner's association dues, cannot exceed 30 percent of the household's gross income.

The ratio of the borrower's monthly cost for housing (rent or mortgage, property insurance, real estate taxes, and if applicable, mortgage insurance and homeowner's associations dues) plus all other household monthly debt (including credit cards, automobile payments, etc.), cannot exceed 40% of the borrowers gross income. If the debt ratio exceeds 40%, it must be presented to the City of Clarksville Office of Housing and Community Development for consideration.

Homebuyer Education Class:

All households are required to attend a homebuyer education class. The class is free to eligible households.

UNDERWRITING GUIDELINES - Applicant Eligibility Standards

Co-Signers who do not have ownership interest in the property are prohibited.

Documentation

Please see checklist with application.

Income Standards

- Alimony and Child Support with six months proof of payment
- Copy of divorce decree
- Disability Income - Copy of award letter from payer.
- Social Security Income - Copy of award letter from payer.
- Retirement or Pension Income - Copy of award letter or W-2 from payer.
- Workers Compensation Benefits - Copy of award letter from payer.
- Unemployment Compensation - Copy of award letter from payer.
- Student Loans (financial aide, etc.) - Copy of award letter from payer.
- Interest or Dividend Income - Two years of 1040s, copies of current statements verifying buyer's assets.
- Salaried Borrowers – copy of two (2) most recent pay stubs.
- If there are multiple employers, all pay stubs showing year to date earnings.
- Verification of Employment form is required from all employers.
- Part-Time Employment recent pay stub, Verification of Employment from employer and letter stating likelihood of continuation.
- Bonus and Overtime income must be documented on pay stub and verification of employment. Will be used if there is a two-year history and likelihood of continuation.
- Self-Employed three years tax returns and current profit and loss statement.
- Commission Only must be verified by employer and documented on tax returns.

Assets Standards

- Checking and Savings Accounts
- Three months most recent bank statements and a Verification of Deposit.
- Stocks and Bonds must be verified by brokerage firm or similar company and statement of account.
- Saving Bonds - Copy of bond.

Liabilities Standards

- Alimony/Child Support - Include as debt if over six months remaining. Need copy of divorce decree.
- 401K Loan - Include as debt.
- Installment Loans - Include as debt if over six months remaining.

- Revolving Accounts - Use payment stated on credit report or application, whichever is higher. If payment is not stated, use the higher of \$10 or 5% of the outstanding balance owing.
- Student Loan - If loan is deferred for one year or more do not include as a monthly obligation. If less than a year deferment or borrower making payments, include as a debt.

Credit History Standards are followed by the lender.

CITY OF CLARKSVILLE
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Policies and Procedures

Purpose:

To provide down payment and closing cost assistance to households that qualify as first-time home buyers through the City's First-Time Homebuyer Program guidelines.

To promote the acquisition and production of more affordable owner-occupied units for very low and low income individuals and families.

101. Applicability:

The policy applies to the local direct homeownership assistance program using HOME funds, governed by the Department of Housing and Urban Development. Further reference to administration of this program can be found under Section 106 of this policy.

102. Definitions:

- a. Area Median Income - median income as estimated by the Department of Housing and Urban Development for an area or State, currently in effect.
- b. Eligible Household - an individual or family whose income is determined to be within 80% of the area median income, adjusted for family size.
- c. First-time Homebuyer - one who has not owned or had ownership in a home in the last three years, except :
 - i. any individual who is a displaced homemaker, being one who has not worked full-time, full-year in the labor force for a number of years, but has worked primarily without remuneration to care for the home and family; and is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.
 - ii. any individual who owns or has owned, as a principal residence during the 3-year period, a dwelling unit of which structure is not permanently affixed to a permanent foundation in accordance with local or other applicable regulations.

- iii. Any individual who is a single parent, being one who is unmarried or legally separated from a spouse, and has either one or more minor children from whom the individual has custody or joint custody; or is pregnant.
- d. Income - the combined gross annual income (before taxes and other deductions) earned by all adult members of the household that is anticipated to be received during the coming twelve month period. This includes all wages, social security payments, unemployment benefits, interest and dividend payments, child support, rent, royalties and all other income derived from any sources. It does not include educational benefits received from the Department of Veteran Affairs or the income of minors. See Section 105 (a) for reference to methodology.

103. Program Rules:

- a) All grantees must have written policies and procedures for operations of the local housing program known and hereafter referred to as the First-Time Homebuyer Program, FTHB, or the program.
- b) Down payment assistance is only available to households meeting the income requirements of the First-Time Homebuyer program. Reference to the methods used in calculating income limits may be found in Sections 102 and 105 of this policy.
- c) Fees associated with mortgage products which deviate from normal closing costs for a fixed-rate, fully amortized loan, including loan discount fees will not be financed with HOME funds.
- d) To guard against lead based paint poisoning, all homes being considered for purchase which were built prior to 1978 must pass a visual assessment inspection by certified Lead contractors. Any subsequent action deemed necessary to address lead hazards would be the responsibility of the seller. For applicable properties, this must be noted in the offer to purchase. Additionally, a “walk away” clause should be included, allowing either party to void the contract should lead hazards be discovered.
- e) Upon sale or transfer of the property, the unpaid portion of the subsidy shall be due and payable immediately. Additional recapture provisions are described in Section 105 (c) and Section 107.
- f) Any funds recaptured under the First-Time Homebuyer program must be used to carry out housing activities in compliance with HUD guidelines. Terms for use of recaptured funds are located in Section 109.

- g) Two Promissory Notes and a Deed of Trust will be used to ensure repayment of the City subsidy and to ensure compliance with the program terms and conditions. Details of the recapture provisions are described in Section 107.
- h) New homes must meet model energy efficiency code, and be within Clarksville city limits. Property must be owner-occupied or vacant at the time of offer, if renter is other than party attempting to purchase.
- i) Homes must pass a visual inspection conducted by the Office of Housing and Community Development staff.
- j) The buyer shall invest one percent (1%) of the purchase price towards the purchase of the property. The City shall provide additional funds as required to complete the purchase transaction as allowed by this policy. Section 105 (g) contains more information regarding this requirement.
- k) Operational expenses to the City will be paid through from Community Development Block Grant and HOME Investment Partnership administrative funds.
- l) Any complaints will be processed under grievance procedures as established by the City of Clarksville and the Office of Housing and Community Development.
- m) The First-Time Homebuyer program will be promoted through the local newspaper, brochures, local Housing and Homeless Coalition and other publications to ensure affirmative marketing of the City's Program.
- n) Households meeting criteria for the First-Time Homebuyer Program may be eligible for a loan for the down payment. The down payment is capped at 3.5% of the sales price up to a maximum of \$5,000. This will be loaned at a rate of 1% for buyers whose income is at 60% or below of the area median income or 3% for buyers whose income is at 60% - 80% of the area median income. The loan will be payable to the City of Clarksville monthly for a period of 10 years. The following conditions apply:
 - i) For **existing** properties: The City will also loan the monies necessary to cover the borrower's closing costs (capped at 5% of the sales price) and prepaid items (capped at 1.5% of the sales price). These costs will be loaned at 0% interest. There is a 10 year forgivable clause based upon a 10% reduction per year as long as the homebuyer remains the owner/occupant. After the 10 year period, the advance becomes a grant and no further obligation remains. The borrower must invest 1% of his own funds towards initial application costs and/or prepaid items/interest.

- ii) The seller, if agreeable, may pay for the closing costs and prepaid items/interest, as permitted by the lender, thus reducing or eliminating any repayment of these expenses to the City at the time of sale or other transfer.
- iii) Upon sale or other transfer of the property, this loan will be due immediately.
- o) Recipients of FTHB assistance will not be eligible to apply for housing rehabilitation assistance under the City of Clarksville Community Development Block Grant or HOME programs for a period of five years following the award of FTHB funds. Following that time, applications for housing rehabilitation assistance will only be considered if all FTHB related obligations have been paid in full.

104. Processing of Applicants:

- a) Any person may pre-qualify for eligibility by completing an application with the FTHB Housing Counselor. The counselor will determine if the applicant meets program requirements. Homeownership Counseling will be scheduled for all FTHB recipients.
- b) The applicant will be required to provide proof of income and other documentation including but not limited to bank statements and/or court documents related to either divorce settlements or judgments. The applicant will be required to sign an authorization for release of information, so that the lender and the OHCD may share information relating to the transaction.
- c) Copies of check stubs or other documents such as a statement from the Social Security Office or a letter from the employer stating the amount of wages or benefits will be maintained in applicant's folder, along with a certificate of eligibility letter, signed by the OHCD Director or related party. A copy of this form will be sent to the financing institution issuing the mortgage, upon request.
- d) The applicant should look for a home to purchase that meets the guidelines set down by the City. Established sales price limits must be considered. Any repairs required by the appraisal should be paid for by the seller. All contracts should include the following statement: **"Contract contingent upon property appraising at or above sales price."**
- e) Once the property is located, the lender processing the loan will provide a contract and a good faith estimate to the OHCD. The good faith estimate will contain all industry standard information such as all closing costs and down

payment amounts.

- f) Upon recommendation of the OHCD or related party staff and approval of the OHCD Director, the amount of funds needed for closing will be sent to the Mayor for approval. Since it is impossible to know the exact costs until closing, the Mayor will be asked to approve an amount equal to the amount of down payment and closing costs (including pre-pays) as shown on the good faith estimate, plus 10 percent. This will be stated in the letter to the Mayor as a funding cost "up to but not exceeding the dollar amount shown."
- g) During the course of processing the application, it is understood that a credit report will be obtained by the lender along with other forms of information verification. The City may also request a credit report to make a qualifying determination.
- h) Upon completion of a credit analysis the lender will inform the City and the applicant of the credit condition and the amount of first mortgage money, if any, the applicant can expect to borrow.
- i) The closing agent will provide a Good Faith Estimate (GFE) to the FTHB Housing Counselor or related party, along with a legal description of the property being purchased. Documents will be drafted based upon this information. At closing a check to the settlement agent which shall match all funds normally required on behalf of the borrower (excepting the 1% that the borrower is to invest) will be provided. A copy of the closing packet shall be provided to the City, as well as a copy of the appraisal. See Section 105 (h) for further details of the policies relating to the closing.

105. Additional Requirements:

a) Income Limits

HOME program funds may be used to benefit only individuals and families earning below 80% of the area median income, set by HUD. See Section 102 for definitions concerning income limit breakdowns. Current limits are attached.

- i) Median income guidelines shall automatically change when revised estimates are made.
- ii) In determining applicant eligibility, the methodology used shall be that of the Income and Allowances as determined for the HOME Program.

b) Level of Subsidy

A subsidy is any loan, grant or other transfer of monies from the local program to a program recipient. The City will award the minimum amount of subsidy needed to make projects economically feasible. No subsidy will be paid which exceeds the amount required from the borrower to complete the home purchase as indicated on the Closing Disclosure form.

c) Type of Subsidy

Subsidies for **income eligible households** shall be in the form of a low interest loan. The subsidy for down payment, closing costs and prepaid items will be loaned at a rate of 1% for buyers whose income is between 50% and 80% of the area median income and 3% for buyers whose income is between 60% and 80% of the area median income. In the event a homeowner sells or moves from the dwelling and it is no longer used as a primary residence any outstanding balance is due and payable immediately.

NOTE: A \$10,000 down payment plus closing costs and prepaids up to 5 % of the purchase price will be available to qualified applicants who purchase a newly constructed property in identified "target neighborhoods." Information on these areas can be obtained from the OHCD. The repayment terms will follow the same guidelines as above.

d) Mortgage Products

The mortgages made in conjunction with the First-Time Homebuyer program must meet the following guidelines: must be a 30-year fixed rate FHA, VA or conventional loan offered at competitive market rate and fees.

e) Compliance Period

Loans and grants made under the First-Time Homebuyer program require an affordability period of a minimum of five years, per the HOME Investment Partnership Program requirements. Should the property be sold or otherwise transferred prior to the five year affordability period, the down payment and closing costs shall immediately become due and payable.

f) Sales Price

The First-Time Homebuyer monetary assistance shall be based on the following:

- i) The contract sales price as shown on line K-01 of the Closing Disclosure form, which shall coincide with the sales price denoted on the Contract for Sale of Real Estate.

g) Borrower Investment

All First-Time Homebuyer program borrowers shall invest one percent (1%) of the sales price towards the purchase of the property. This amount may be put forth as the earnest money, and/or towards the initial application fee, and/or towards the prepaid items/interest. The borrower's 1% investment may not be paid by the seller or through gift letters.

h) Closing Procedures

The City or related parties will require two working days for which to prepare the Notes and Deed of Trust. Therefore a correct Closing Disclosure form along with a legal description is required. Correct documents received after regular business hours will be ascribed to the subsequent workday and the timetable attributed to that day.

The Deed of Trust shall be six (6) pages in length. The closing agent will be required to record this document and should include these costs in the Settlement Statement. In addition, a \$75.00 document preparation fee payable to Phillip R. Sykes, Attorney, should be collected or included on the Settlement Statement.

106. Subsidy Administration:

This program will be administered as outlined in this policy statement. It will follow all the rules of approval of expenditure of funds and record keeping as outlined in this policy and other applicable policies setup by the City.

This program will be administered in accordance with HUD standards. All HUD grants and loans are subject to audit by HUD. HUD reserves the right to monitor, at any time, the records and the compliance with the rules of this program.

107. Enforcement of Conditions:

TO ENFORCE THE COMPLIANCE PERIOD, ALL BENEFICIARIES MUST AT A MINIMUM SIGN A NOTE AND A DEED OF TRUST. The Note is made payable to the City of Clarksville. The Deed of Trust is recorded at the Register's Office of Montgomery County, TN. It enforces the Note by restricting the use of the land for a specified period of time.

The Deed of Trust places a lien on the property to ensure repayment of the Note and to

assure that other conditions are met. The Deed of Trust places a "cloud" on the title of the subsidized property which must be cleared prior to the transfer of the property to a new owner, and helps the City monitor the compliance period.

All conditions for purchase assistance must be met and maintained as agreed upon or the entire unpaid portion is immediately due and payable.

The period in which subsidies for down payment assistance shall be repaid in full is subject to the provisions outlined in the Note. The amount to be repaid shall be the amount of the original disbursement, at the interest rates outlined in Section 105 (c). The method of repayment shall be outlined in the Note.

108. Occupancy Requirement:

Purchasers of homes using First-Time Homebuyer Program monies from the City are required to reside in said property. This property is not to be rented to another household. The owner may rent a room to an outside party but may not move out of the house and rent it to someone else. The owner may not vacate the property without clear intent to return as occupant. If the owner rents, sells, or vacates the property prior to the satisfaction of the Note and Deed of Trust, the unpaid portion of the City subsidy will immediately become due and payable.

109. Use of Recaptured Funds:

All funds repaid to the City will be used to carry out local low income housing programs. These funds will be expended on a regular basis, and will not be allowed to accumulate for more than five years.

110. Final Disposition of Funds:

Should the First HOME program cease to exist, the remaining HOME Investment Partnership funds will be reallocated to other program to meet the requirements and regulations of the HOME Program and will be consistent with the City of Clarksville's Housing and Community Development 5 year Consolidated Plan.