

Memorandum



DATE October 13, 2017

TO Honorable Members of the Economic Development & Housing Committee:
Tennell Atkins, Chair, Rickey D. Callahan, Vice-Chair, Lee M. Kleinman,
Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder,
Omar Narvaez

SUBJECT **Economic Development & Housing Committee Briefing
Dallas Homebuyer Assistance Program Questions and Answers**

On October 2, 2017, the Economic Development & Housing Committee was briefed on the proposed program changes to the Dallas Homebuyer Assistance Program (DHAP). During the briefing, committee members requested data regarding DHAP Underwriting Guidelines, Demographics of Homebuyers, Household Income, and Occupancy. A response to those inquiries is summarized below.

Underwriting Guidelines

The proposed DHAP underwriting guidelines will allow proper evaluation of the assistance amount needed by the homebuyer. As an example, it will ensure that no more than 30% of a homeowner's income pays for housing costs. Implementation of such underwriting guidelines promotes a more sustainable future for a homeowner. Furthermore, we anticipate that with the recommended DHAP changes homebuyers will be more equipped to sustain economic changes that have affected past homebuyers; therefore, reducing the risk of a default. See enclosed the underwriting guidelines, as requested.

Demographics and Household Income

DHAP was implemented and administered by Enterprise Community Partners from 1992-2012, and during such time council district data and homebuyer statistics were not collected by the City. However, beginning in Fiscal Year 2012-2013, the City collected the following statistics: Table 1 illustrates the breakdown of the households assisted per district; Table 2 shows approximately 61% of homebuyers purchased an existing home and 39% purchased a newly constructed home; amongst the assisted homebuyers, 40% were at or below 50% Area Median Income (AMI) and 60% were between 51-80% AMI; and also identified was that 37% of homebuyers were African American, 58% were Hispanic and 5% were Anglo/other. A year by year summary is provided on the chart below.

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Table 1
 DHAP Breakdown by Council District

	Council 1	Council 2	Council 3	Council 4	Council 5	Council 6	Council 7	Council 8	Council 9	Council 10	Council 11	Council 12	Council 13	Council 14	Council District Not Available	Total Loans Closed
No. of Loans Closed	605	143	1184	725	951	433	527	1128	322	67	56	20	35	44	1612	7852

Table 2
 DHAP Program Statistics

YEAR	# OF LOANS	PROPERTY TYPE			AMI		ETHNICITY				DEFAULT
		EXISTING	NEW	N/A	50% - Below	51% - 80%	AFRICAN AMERICAN	ANGLO	HISPANIC	OTHER	NOTICE SENT
1991	9	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A	
1992	53	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A	
1993	92	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A	
1994	279	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A	1
1995	256	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A	2
1996	540	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A	3
1997	229	27	10	192	N/A	N/A	N/A	N/A	N/A	N/A	4
1998	688	154	78	456	N/A	N/A	N/A	N/A	N/A	N/A	10
1999	488	398	48	42	N/A	N/A	N/A	N/A	N/A	N/A	21
2000	320	251	69		N/A	N/A	N/A	N/A	N/A	N/A	27
2001	298	178	120		138	160	136	7	155	0	27
2002	423	212	211		194	229	145	19	257	2	31
2003	412	219	193		183	229	123	16	273	0	39
2004	528	241	287		262	266	128	20	378	2	40
2005	451	186	265		262	189	156	17	276	2	21
2006	549	347	202		247	302	254	20	274	1	18
2007	434	283	151		179	255	195	13	224	2	48
2008	351	235	116		101	250	177	16	157	1	52
2009	385	280	105		109	276	136	18	225	6	7
2010	211	146	65		72	139	62	7	138	4	17
2011	163	94	69		58	105	54	6	99	4	7
2012	141	49	92		37	104	52	8	79	2	6
2013	80	43	37		14	66	20	3	56	1	10
2014	96	61	35		25	71	36	4	53	3	3
2015	135	83	52		34	101	56	9	66	4	0
2016	146	76	70		29	117	49	10	87	0	0
2017	95	52	43		15	80	32	7	55	1	0
Year N/A											85
TOTALS	7852	3615	2318	690	1959	2939	1811	200	2852	35	479

The Default column indicates the number of households who received default notices from the first lien lender. The spike in default notices in 2007-08 was due to the national housing crisis leading to the market instability and the foreclosure of many homes.

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Occupancy

Since DHAP's inception, 582 homebuyers either sold or paid their home loans prior to completion of the DHAP affordability period; meanwhile, 1,938 homebuyers satisfied their obligation and had their lien released.

Should you have any questions, please contact me at (214) 671-5257, or you may also contact David Noguera, Director of Housing and Neighborhood Revitalization, at (214) 670-3619.



Raquel Favela
Chief of Economic Development & Neighborhood Services

Attachment

c: The Honorable Mayor and the Members of City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billierae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Nadia Chandler Hardy, Chief of Community Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

CITY OF DALLAS HOMEBUYER ASSISTANCE PROGRAM

UNDERWRITING GUIDELINES

General

The City of Dallas is a Participating Jurisdiction (PJ) under the federal HOME Investments Partnership Program, receiving an allocation of HOME funds from the US Department of Housing and Urban Development that is used to support affordable housing activities in the community. As part of the local HOME Program, the PJ provides assistance to low income homebuyers. This assistance can be used toward an eligible buyer's down-payment or closing costs or can be used as direct financing that reduces the size of a buyer's primary loan (i.e. first mortgage) to a level that is affordable.

In providing assistance to homebuyers, the PJ has to balance potentially competing perspectives. First, the PJ wants to ensure that participating buyers will be successful homeowners, so the program should target households who are ready for homeownership and provide enough assistance to make the home affordable. At the same time, buyers should only be provided with the assistance they "need" so that the program can serve as many households as possible with limited HOME funds. Finally, the PJ seeks to ensure that assisted buyers are informed consumers and avoid the use of risky lending products.

To balance these priorities, the PJ has developed these underwriting guidelines, which are based on the following key principles.

- Assisted buyers should have good credit and qualify for competitive lending products on par with those offered to credit-worthy unassisted buyers in the local market. Buyers who can only qualify for subprime loans are not only less likely to sustain homeownership but also require larger subsidies, reducing the impact of the PJ's HOME program.
- Assisted buyers should make reasonable and meaningful contributions to their home purchase in terms of both up-front investments and monthly payment without being overburdened by their monthly payment or left without cash reserves after closing. HOME assistance should not be used to artificially reduce buyers' payments, particularly when a buyer's ability to qualify for a loan is the result of excessive consumer debt.

Applicability & Exceptions

This policy is applicable to all homebuyer units supported by the PJ's HOME program. This includes situations where HOME funds are being used to provide direct buyer assistance (e.g. downpayment and closing costs) supporting a buyer's purchase of a home for sale by a private seller. It also applies to the sale of any home built or rehabilitated by a participant in the PJ's HOME program (including subrecipients, developers, or CHDOs) whether or not the ultimate sale to the buyer includes direct assistance.

While there may be individual cases where these requirements may be waived, program participants should request specific exceptions in writing prior to making any commitments to prospective buyers who cannot qualify within these criteria. The PJ's HOME partners are reminded that they will be responsible for representations and/or commitments made to prospective buyers without prior approval by the PJ.

Maximum Homebuyer Assistance

- The maximum HOME-assistance available for a buyer is based on need as determined by the following underwriting criteria. Not all buyers will qualify for assistance. The assistance available to any given buyer is based on the PJ's assessment of the buyer's need, taking into account the additional criteria outlined below.

Buyer Expectations

To ensure that buyers are likely to sustain homeownership, assisted buyers must:

- Be purchasing the home for a reasonable price that does not exceed the fair market value as determined by an independent appraisal. In most cases, the PJ will coordinate with the buyer's senior lender to obtain a copy of the lender's appraisal. Additionally, the home must have a sales price less than or equal to the applicable HOME Homeownership Value limit for the type (new or existing) and location of the home. These limits are updated annually by HUD and can be obtained from the PJ.
- Have incomes between 40% and 80% of the Area Median Income (AMI) as adjusted for household size. HOME limits assistance to households with incomes at or below 80% AMI. While the PJ is concerned about the housing needs of lower income households, it also recognizes that homeownership requires buyers to have sufficient discretionary income to maintain their homes over time, absorb increases in taxes and insurance, and otherwise address unexpected expenses. As a result, the PJ focuses its homebuyer assistance to buyers with incomes in excess of 40% AMI.
- Contribute at least \$1,000 toward downpayment and closing costs. Additionally, buyers should have sufficient cash resources (including savings, checking, money market, or other similar non-retirement accounts) such that after closing they have savings of at least two (2) times their total monthly payment, including principal, interest, taxes, insurance, and any association fees.

Buyers with liquid assets in excess of \$10,000 will be required to invest assets above \$10,000 toward the purchase of the home before receiving HOME-assistance. For purposes of this requirement, liquid assets are those readily convertible to cash (including but limited to savings or checking accounts, certificates of deposit, stocks and bonds, etc.). Liquid assets, however, exclude life insurance policies and any savings held in a tax-preferred retirement account (e.g. pension, 401(k), IRA, etc.), college savings plan (e.g. 529 account), or health savings account recognized by the Internal Revenue Service.

- Obtain a loan whose monthly payment (i.e. front end ratio) does not exceed 30% of monthly income and that does not result in a total debt burden (i.e. back end ratio) in excess of 43%. While the recent

foreclosure crisis has reduced the availability of lending products that allow buyers to take on excessive monthly payments, some such products are still available. Even when assisted buyers are willing to take on larger monthly payments, the PJ has determined that buyers with excessive payments are less likely to sustain homeownership.

- Be qualified by their lender to spend at least 20% of their monthly gross income on their housing. Lenders often qualify borrowers to spend between 28-33% of monthly gross income, so buyers qualifying only at payment levels below 20% of income usually have high consumer debt which increases both subsidy costs and the likelihood of foreclosure later.

Note, this criterion is not intended to eliminate buyers whose loan is limited by the lender's loan-to-value ratio resulting in a monthly payment less than 20% of income. For example, if a buyer could qualify to purchase a \$100,000 home at a 28% ratio, but because the household is purchasing a \$50,000 home, the actual payment will be less than 20% of monthly income.

- Complete Pre-Purchase Homeownership as required below.
- Obtain a mortgage or senior loan that meets the requirements outlined below.

Pre-Purchase Counseling Requirement

To ensure that buyers receive are informed consumers, the PJ requires:

- Attendance within the past year at a PJ-approved pre-purchase homeownership counseling course by all adult household members who will hold title and be party to the senior loan; and
- That such counseling consists of at least 8 hours of instruction by a HUD-certified counselor.

The PJ has a list of certified counseling agencies that they will provide to potential buyers. Potential buyers should contact an agency on this list to register for an upcoming class.

Primary Loan Expectations

To ensure that buyers receive high quality loans that are sustainable over time, the PJ requires that any buyer receiving HOME assistance towards closing costs, downpayment, or a portion of the purchase price receive a senior loan (i.e first mortgage) meeting the following criteria:

- The loan must be a conventional, FHA, VA or portfolio loan from an approved lender. The loan can not be a High Cost or Sub-Prime Loans, Adjustable Rate Mortgages (ARM), Interest only loans, Discount Points paid by Borrower, and Cash Back at Closing.

- Interest rates must be competitive and must NOT be a “Higher Priced” loan as defined by CFPB. Higher priced loan are those that exceed the Average Prime Offer Rate by more than 1.5% as of the date of the loan’s rate lock. Loans can be checked against the Average Prime Offer Rate by visiting the following website: <http://www.ffiec.gov/ratespread/newcalc.aspx>
- Lending products should be fully amortizing 30-year fixed rate loans. While some buyers may prefer shorter (e.g. 15 year) loans, the PJ will only consider such loans on an exception basis if it determines that the buyer’s payment is sustainable and that the use of a shorter term product does not require additional HOME assistance compared to a 30-year loan.
- Loan products used must generally allow loan-to-value (LTV) ratios of at least 95%. While assisted buyers are not required to be approved for loan amounts equal to 95% of the purchase price, buyers who use more restrictive lending products (such as those limiting the LTV to 80%) will not receive HOME assistance toward their purchase if they could otherwise afford the monthly payment on a larger loan. In short, buyers should obtain the largest loan they can reasonably afford, and the PJ will not subsidize purchases more deeply just to avoid mortgage insurance on higher LTV lending products.

Subordination of HOME-Funded Liens

After providing assistance to eligible homebuyers the PJ has ongoing interests in the success of those buyers from the standpoint of both the HOME program and as a local government concerned about the impact of foreclosures on its residents and neighborhoods. To help prevent future foreclosures and to protect the PJ’s financial investment in assisted units, subordination of HOME-funded liens to future refinancing by assisted buyers will only be considered under the following circumstances. This policy will also apply to HOME-funded liens resulting from homeowner rehabilitation programs and to any of the PJ’s subrecipients or CHDOs who hold secondary liens securing direct assistance provided to buyers or homeowners.

- The new loan must be for the sole purpose of improving the rate and/or extending the term of the existing loan and must result in a low monthly payment for the homeowner. The PJ (including any of its subrecipients or CHDOs who hold secondary liens securing direct assistance provided to buyers) will not subordinate for “cash out” refinancing.

For purposes of this requirement, the new loan may allow the assisted homeowner to finance their closing costs without being considered cash out. Additionally, nominal cash back at closing of less than \$500 resulting from last-minute adjustments to payoff figures, closing costs, tax/insurance escrows and the like will not be considered “cash out.”

- The proposed new loan must meet all requirements in the Primary Loan Expectations section above.
- The proposed new loan must result in a lower monthly payment for the assisted owner.