

**PALM BEACH COUNTY
BOARD OF COUNTY COMMISSIONERS
AGENDA ITEM SUMMARY**

31-4

Meeting Date: November 3, 2009 [X] Consent [] Regular
Department: Housing and Community Development
Submitted By: Housing and Community Development

I. EXECUTIVE BRIEF

Motion and Title: Staff recommends motion to approve: An amendment to the Program Guidelines for the Neighborhood Stabilization Program (NSP) funded First Mortgage Loan Program to allow for the provision of second mortgage subsidies to eligible low, moderate and middle income NSP homebuyers who have received a first mortgage approval and to permit the use of NSP funding for closing costs expenses for eligible low and moderate income homebuyers.

Summary: On November 18, 2008, The Board of County Commissioners (BCC) approved the application which was submitted to U.S. Department of Housing and Urban Development (HUD) for funding under the Neighborhood Stabilization Program (NSP). This included the request for \$12,845,811 to fund a Local Housing Trust Fund which would provide first and second mortgages to eligible homebuyers. On April 21, 2009 the Board of County Commissioners approved The Program Guidelines for the Neighborhood Stabilization Program (NSP) funded First Mortgage Loan Program. These proposed amendments will permit prospective low, moderate and middle income NSP homebuyers who have received first mortgage approval from HCD under the NSP Program, to receive additional financial assistance in the form of second mortgage subsidies if necessary, and to permit NSP funding to be used for closing costs expenses for eligible low and moderate income NSP homebuyers. The maximum amount of the second mortgage subsidies will be as follows: low income (0-50% AMI) up to \$100,000, moderate income (51-80% AMI) up to \$75,000 and middle income (81-120% AMI) up to \$25,000. The specific amount awarded to each homebuyer will be determined by the applicant's household income and purchase price of the foreclosed residential property. The second mortgage subsidies will bear no interest and will be forgiven after thirty (30) years if all affordability provisions are met. Otherwise, full repayment of the second mortgage subsidy is required. In the event the NSP first mortgage is repaid before the end of the second mortgage subsidy affordability period ends, the second mortgage shall continue to encumber the NSP assisted property until the affordability period ends, or until the second mortgage subsidy is fully repaid. This is critical since HUD has mandated that all NSP funding must be obligated on or before September 4, 2010. This amendment will assist in meeting that deadline. **Countywide (TKF)**

Background and Justification or Background and Policy Issues: On September 29, 2008, HUD published a Notice which advised of the availability of NSP funds, of which Palm Beach County was eligible to receive \$27,700,340. In order to gain access to these funds Palm Beach County was required to submit an application to HUD which outlined the proposed use of the entire award. HUD advised of their approval of the County's application on January 12, 2009.

(Continued on Page #3)

Attachments:

- A. Amended Program Guidelines for the NSP First Mortgage Loan Program
- B. BCC approved Program Guidelines for the NSP First Mortgage Loan Program.

Recommended By: Edward W. Gomez
Department Director

10/26/09
Date

Approved By: Sharon [Signature]
Assistant County Administrator

11/2/09
Date

II. FISCAL IMPACT ANALYSIS

A. Five Year Summary of Fiscal Impact:

<u>Fiscal Years</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital Expenditures	_____	_____	_____	_____	_____
Operating Costs:	_____	_____	_____	_____	_____
External Revenues:	_____	_____	_____	_____	_____
Program Income (County)	_____	_____	_____	_____	_____
In-Kind Match (County):	_____	_____	_____	_____	_____
NET FISCAL IMPACT:	_____	_____	_____	_____	_____
# OF ADDITIONAL FTE POSITIONS (Cumulative):	_____	_____*	_____	_____	_____

Is Item Included In Current Budget? Yes _____ No _____


Budget Account #: Fund _____ Dept _____ Unit _____ Object _____

Program Code/Program Period _____

B. Recommended Sources of Funds/Summary of Fiscal Impact:

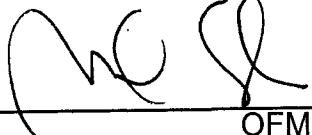
* No fiscal impact at this time.


C. Departmental Fiscal Review:

 10-19-09
Shairette Major, Fiscal Manager I

III. REVIEW COMMENTS

A. OFMB Fiscal and/or Contract Administration Comments:

 10/28/09
OFMB CN 10/27/09

 10/29/09
Contract Dev. and Control

B. Legal Sufficiency:

 10/29/09
Senior Assistant County Attorney

C. Other Department Review:

Department Director

Background and Justification or Background and Policy Issues (continued)

The Board of County Commissioners (BCC) approved the Program Guidelines for the NSP funded program on April 21, 2009 and amended the Program Guidelines on August 18, 2009 to reduce the required minimum purchase discount from fifteen percent (15%) below the property's appraised market value to one percent (1%) below the market appraised value for each residential property purchased with NSP funds. This was done to comply with HUD's revision to the NSP Notice that was published on June 11, 2009. Neither the initial County program guidelines nor the amended guidelines included the provision of second mortgages.

On April 27, 2009, HCD began taking applications for the NSP First Mortgage Loan Program. Of the 387 applicants, 310 met the minimum threshold requirements and of these, 242 households qualified for a first mortgage. However, in most cases, the amount of the first mortgage which the applicant was qualified to receive was insufficient to purchase a suitable foreclosed home. Therefore, in order for these households who have received first mortgage approval to purchase a home through the NSP Program, additional subsidies must be granted. The provision of second mortgage subsidies to eligible low, moderate and middle income NSP homebuyers who have received a first mortgage approval would allow these applicants to purchase suitable residential properties while serving the NSP Program objective of reducing the number of foreclosed upon properties within the County and arresting incidences of declining neighborhoods.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

NEIGHBORHOOD STABILIZATION

FIRST MORTGAGE LOAN PROGRAM (FMLP)

I. General Information

This program is designed to provide mortgage loan assistance to individuals and households earning up to 120% Area Median Income (AMI). Only those foreclosed, abandoned and vacant residential properties located within the designated "Eligible Areas" can be purchased with this loan funding. The sales price of the dwelling unit cannot exceed \$280,000 and must reflect at least a one percent discount of the appraised value. The home purchased must be the purchaser's primary place of residence. The first mortgage financing provided will be provided in the form of a 30 year fixed rate mortgage, with an interest rate not to exceed 4% (APR of 4.5%). **All First Mortgage Loan Program requests are subject to funding availability.**

Second mortgage subsidies may be provided to eligible low, moderate and middle income NSP homebuyers who have received a first mortgage approval. The second mortgage subsidies provided shall not exceed \$100,000 for very low income applicants (0-50% AMI), \$75,000 for low income applicants (51-80% AMI) and \$25,000 for moderate income applicants (81-120% AMI). The second mortgage subsidy shall bear no interest and shall be forgiven after thirty (30) years if all affordability provisions are met. All mortgage requests are subject to funding availability.

The affordability provisions will be achieved by the recording of encumbrances and restrictions on all properties whose acquisition is assisted with NSP funding. The homebuyer's obligation to repay the second mortgage subsidy will be forgiven upon the expiration of the 30 year affordability period, or at the sale or transfer of title to the NSP assisted property to an income eligible person who pledges to complete any remaining balance of the affordability period. Any sale or transfer not meeting the above stated requirements will require the full repayment of the second mortgage subsidy. In the event the NSP first mortgage is repaid before the end of the second mortgage affordability period ends, the second mortgage shall continue to encumber the NSP assisted property until the end of the affordability period, or until the second mortgage subsidy is fully repaid.

A. MORTGAGE APPLICATION PROCESS

The application process for a prospective homebuyer commences with the income certification of the applicant. All applicants must be income certified to determine the household's eligibility for the FMLP. All participants will be required to submit a completed application and all supporting documentation as referenced in the application checklist (*please see the attached checklist*). Once all the required documentation has been received, HCD staff will begin the income certification process.

After an applicant has been income certified, the applicant will be provided with a Conditional Loan Approval, which will include: (1) a proposed FMLP loan amount, (2) contact information for the local Realtors Associations, (3) a list of eligible home appraisal companies; and (4) a list of HUD approved Homebuyer Counseling Agencies. The Conditional Loan Approval will require each approved FMLP applicant to identify and select within 45 calendar days an eligible residential property. The Conditional Loan Approval will only guarantee the availability of the NSP loan funds for 45 calendar days (*from the date of certification*). Within the 45 calendar days the approved applicant must provide HCD with: (1) a fully executed sales contract, (2) an acceptable appraisal, and (3) an acceptable home inspection report. FMLP applicants will also be required to secure and provide HCD with a quote for homeowners insurance.

B. PROPERTY SELECTION PROCESS

FMLP funds can only be used to purchase residential properties (*excluding mobile homes*) that are foreclosed, abandoned, vacant, and located within the designated "Eligible Areas." All properties must be purchased at a minimum discount of one percent below the current appraised value. The maximum purchase price (*which includes purchase price plus any needed rehabilitation*) cannot exceed \$280,000. Approved applicants are permitted to use up to \$35,000 of their FMLP loan proceeds to rehabilitate the property being purchased. **The appraised value for all properties purchased through FMLP will be established and determined by a County approved appraiser (see the list of eligible appraisers).**

Each applicant is encouraged to work with a local Realtor to locate NSP eligible properties. Once a **fully executed** sales contract has been obtained, the applicant must notify HCD and provide a legible copy of the fully executed sales contract, including all addendums. Additionally, Palm Beach County requires that the attached contract rider adhering to local NSP guidelines be executed by all parties and attached to the purchase contract.

Once a sales contract has been entered into, the approved applicant must employ a County approved appraiser from the list provided. The cost associated with this appraisal is paid directly to the appraisal company by the approved applicant.

Each homebuyer is also required to have a private home inspection conducted by a licensed home inspection company or by a licensed building or general contractor. Please be advised that the cost associated with the home inspection is paid directly to the inspection company by the applicant. Upon completion of the inspection, please provide a copy of the inspection report (*along with proof of payment*) for review and approval by HCD.

Once the approved applicant has acquired the sales contract, appraisal, and inspection report, these items are to be submitted (along with proof of payment) directly to HCD. If rehabilitation of the selected property is required, a contractor's estimate should also be provided.

C. OTHER REQUIREMENTS

Each approved FMLP applicant must enroll in an eight (8) hour Homebuyer Counseling Program through a HUD approved counseling agency prior to closing (*a list of HUD approved agencies will be provided*).

II. FIRST MORTGAGE LOAN PROGRAM (FMLP) APPLICATION REVIEW CRITERIA

A. MAXIMUM HOUSING EXPENSE RATIOS

The maximum housing expense ratio (*which includes principal, interest, taxes, insurance, association fees and any mortgage loans secured to purchase the property*) cannot exceed 35.00% of the applicant's monthly household income.

However, in cases where an applicant's total debt ratio does not exceed 40%, the front-end ratio can go up to 37.50%.

An escrow account will be established for real estate taxes, homeowners insurance and flood insurance (if applicable).

B. MAXIMUM TOTAL DEBT RATIOS

The maximum applicant total debt ratio cannot exceed 45.00%.

C. MINIMUM FICO CREDIT SCORE

In order to be eligible for the FMLP, potential applicants/borrowers must have a FICO credit score of at least 500.

D. MAXIMUM INTEREST RATE

FMLP mortgages will be provided at a fixed interest rate not to exceed 4% (APR of 4.5%).

E. ELIGIBLE APPLICANTS AND HOUSEHOLDS

"An eligible person or household" is one or more natural persons or family who has been determined to be of lower income (earning up to 120% AMI) according to the income limits published annually by the United States Department of Housing and Urban Development (HUD). All units rehabilitated, purchased or otherwise assisted with the NSP FMLP must be occupied by eligible persons utilizing the assisted housing unit as their principal residence.

Legal Residency

It is required that **all** borrowers of NSP loan program funds, have legal residency as defined by the Department of Housing and Urban Development. However, where and when Palm Beach County determines additional policies or criteria is appropriate, the FMLP shall be revised to be in compliance.

Please be advised that if the potential applicant is married, both the applicant and their spouse must be legal residents of the United States in order to be eligible for the FMLP. **Valid documentation confirming proof of residency is required for all applicants/borrowers.**

F. MAXIMUM SALES PRICE AND REHABILITATION COSTS

All properties must be purchased at a minimum discount of one percent below the current appraised value. The maximum cost of acquiring the home (*which includes purchase price plus any needed rehabilitation*) cannot exceed \$280,000. The appraised value for all properties purchased through FMLP will be established and determined by a County approved appraiser (*see the list of eligible appraisers*).

Upon approval of a first mortgage loan, an applicant is permitted to use up to \$35,000 of their loan proceeds to rehabilitate the property being purchased. All major code, health and safety violations must be repaired prior to occupancy. If the proposed rehabilitative work is deemed "excessive" (in excess of \$35,000) by a HCD Rehabilitation Compliance Inspector, the rehabilitative work may be disqualified for FMLP funding.

Gift funds and any seller's concessions can be used to offset the cost of the property as well as the repair and rehabilitation.

G. ELIGIBLE AREAS

FMLP mortgage loans are only available to purchase eligible foreclosed and abandoned

properties located within the following zip codes:

ZIP CODES	GEOGRAPHIC AREAS
33414, 33467, 33470	Wellington / Loxahatchee Grove / Surrounding Unincorporated Areas
33409, 33413, 33415	Unincorporated Palm Beach County (including Westgate) - South of 45 th Street; East of Turnpike; West of I-95; and North of Lake Worth Road.
33411	Royal Palm Beach / Acreage
33463	Greenacres
33445, 33446, 33484	Unincorporated Palm Beach County - South of Boynton Beach Blvd.; East of Loxahatchee National Wildlife Refuge; West of Military Trail; and North of Clint Moore Road.
33428, 33433, 33434, 33498	Unincorporated Palm Beach County - South of Clint Moore Rd.; East of Loxahatchee National Wildlife Refuge; West of I-95; and North of Broward County line
33458, 33469, 33477	Jupiter / Tequesta / Unincorporated Palm Beach County
33436, 33437	Unincorporated Palm Beach County (including Golf) - South of Gateway Blvd.; East of Loxahatchee National Wildlife Refuge; West of Congress Ave.; and North of Atlantic Ave.
33460	Lake Worth
33404	Riviera Beach
33403	Lake Park
33417	Haverhill
33462	Hypoluxo / Lantana / Atlantis / Manalapan / Unincorporated Palm Beach County
33430	Belle Glade
33476	Pahokee
33493	South Bay
33438	Canal Point

H. INCOME ELIGIBILITY

Eligible households are those with an annual income of up to 120% of the Area Median Income (AMI). Please refer to the chart below. FMLP income eligibility will be based on annual medium family income determinations issued by the Department of Housing and Urban Development (HUD). HUD updates this chart annually; please contact the Housing and Community Development (HCD) Department for more information on income eligibility.

Number of Persons in Household	Very Low Income (50.00%)	Moderate Income (120.00%)
1	\$ 26,400.00	\$ 63,350.00
2	\$ 30,150.00	\$ 72,400.00
3	\$ 33,950.00	\$ 81,450.00
4	\$ 37,700.00	\$ 90,500.00
5	\$ 40,700.00	\$ 97,700.00
6	\$ 43,750.00	\$ 104,950.00
7	\$ 46,750.00	\$ 112,200.00
8	\$ 49,750.00	\$ 119,450.00

* Fiscal Year 2009 Median Family Income Chart. Median income for Palm Beach County is \$67,000.

I. ELIGIBLE HOUSING

Eligible properties are any foreclosed, vacant and abandoned single-family houses, townhouses or condominiums (*excluding mobile homes*), located within the eligible Areas of Greatest Need. **Applicants may only purchase one (1) residence within multi-family properties such as duplexes, triplexes, quadplexes, etc. Additionally, all mobile and manufactured homes are ineligible.**

The property to be purchased **must** be used as the applicants/borrowers' primary residence. Additionally, potential FMLP applicants/borrowers cannot currently own a home or be on the title of any other home.

If the property to be purchased was built in 1978 or before, the homebuyer shall provide a lead-based paint risk assessment which would determine if there is a presence of lead-based paint hazards.

Where applicable, well and septic tank inspections shall also be required for all residential properties purchased using FMLP proceeds.

HCD staff shall conduct an environmental review of all residential properties purchased using FMLP proceeds. After completion of the review, a clearance notice shall be sent to the FMLP applicant indicating whether or not the residential property received environmental clearance. Notice will include any required mitigation measures. If the residential property fails the environmental review, the applicant will be informed and advised that another residential property must be selected.

J. MINIMUM APPLICANT CONTRIBUTION (DOWN PAYMENT)

Applicants/borrowers must provide a minimum financial contribution. The applicant contribution serves as the down payment on the property to be purchased. The contribution must be verifiable at the time the FMLP application is submitted to HCD.

The minimum applicant contribution for a household that is 50.00% or below the AMI (*Very Low Income*) is one percent (1%) of the total cost to purchase and rehabilitate the property.

The minimum applicant contribution for a household that is between 51.00% and 120.00% of AMI (*Low and Moderate Income*) is two percent (2%) of the total cost to purchase and rehabilitate the property.

However, a household's total liquid assets in excess of \$250,000 will increase the minimum applicant contribution to ten percent (10%) of the total cost to purchase and rehabilitate the property. *Please refer to the Maximum Asset Limit policy below.*

K. MAXIMUM HOUSEHOLD ASSET LIMIT

If an eligible household's total "liquid assets" equal or exceed \$250,000, that household will be required to provide a minimum applicant contribution of ten percent (10%) of the total cost to purchase and rehabilitate the property. Liquid assets are defined as cash or any type of negotiable asset that can be converted quickly and easily into cash. *Please refer to the policy on Minimum Applicant Contribution.*

L. CLOSING COSTS

All eligible ~~low and moderate~~ middle income FMLP applicants will be responsible for paying the closing costs associated with the purchase of the eligible property. Closing costs cannot be paid using FMLP loan funds or another subsidy source. However, gift funds or seller concessions may be used to pay closing costs.

However, the closing costs for low (0-50% AMI) and moderate (51-80% AMI) income ~~very low income~~ applicants may be paid utilizing FMLP funds, gift funds, and seller concessions.

M. TITLE TRANSFERS AND CHANGES

Palm Beach County must consent to all property interest transfers including, but not limited to transfers between owners. The County will only approve such requests in limited circumstances such as death, divorce or other special circumstances. Any unapproved transfer of interests will automatically (*and immediately*) require full repayment of the entire first mortgage loan.

N. INSURANCE

Homeowner's insurance coverage for the properties purchased using FMLP loan proceeds, must be sufficient to cover all encumbrances placed against the property or be equal to replacement value.

If the property being purchased is located within an identified flood zone, the applicant will be required to purchase and maintain flood insurance.

O. HOMEBUYER EDUCATION CERTIFICATE AND CERTIFICATION

All applicants seeking participation in the First Mortgage Loan Program are required to enroll in a home buyer education course for no less than six (6) hours in a classroom setting plus two (2) hours one-on-one counseling with a HUD approved Homebuyer Counseling Agency prior to closing (*a list of approved agencies is attached*). Upon successful completion of the Homebuyer Counseling Training, all applicants seeking participation in the First Mortgage Loan Program are required to have the provider of the home buyer education course certify their enrollment and completion of the course and provide the original Homebuyer Education Program Certification and the original Certificate of Training to HCD.

P. HOME INSPECTIONS

In addition to an HCD inspection of the home selected, **each homebuyer will be required to have a private home inspection.** All existing residential properties to be purchased utilizing FMLP loan proceeds shall have an inspection conducted by a licensed Inspection Company or by a licensed building or general contractor. A copy of that inspection report shall be provided for review and approval by Palm Beach County.

Prior to closing, a final inspection shall be conducted by HCD to confirm that all repairs required by Palm Beach County are complete and were done in accordance with all applicable building codes.

Q. HOME REPAIR AND REHABILITATION

The NSP requires that all NSP assisted rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability in order to sell rent or redevelop such homes and properties. Program requirements also state that all housing units purchased are eligible for rehabilitation.

All rehabilitation undertaken must be consistent with the existing County CDBG rehabilitation policies except that eligible beneficiaries will be required to have income which is at or below 120% of the AMI. All rehabilitation work done under this program will seek to upgrade the property to ensure compliance with applicable municipal, county and state housing and building standards to the extent that the repairs performed are practical and feasible. NSP assisted rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability in order to sell rent or redevelop such homes and properties. Rehabilitation may also include improvements to increase the energy efficiency or conservation of such homes and properties or to provide a renewable energy source or sources for such homes and properties.

Applicants are encouraged to purchase properties needing the least amount of rehabilitation. The maximum allowable costs for the rehabilitation of an identified housing unit shall not exceed \$35,000 when FMLP funds are used. The homebuyer may however use personal funds or gift to funds for rehabilitation costs in excess of \$35,000. All rehabilitation funds (*either from the County or any other source*) shall be escrowed at closing. Prior to funds being released to a contractor, HCD will confirm the final repairs have been made. **Only an HCD Rehabilitation Compliance Inspector or the HCD Director can authorize the release of repair funds held in escrow.** *Please refer to the Rehabilitation Policy for eligible home repairs.*

R. UNDERWRITING

In cases where the FMLP policies and underwriting guidelines are silent, HCD will apply standard lending industry underwriting guidelines (*those consistent with Fannie Mae, Freddie Mac or FHA*) to process all FMLP loan requests. *Please refer to the FMLP Guidelines for some of the standard underwriting practices.*

III. FIRST MORTGAGE LOAN PROGRAM (FMLP) POLICIES AND PROCEDURES

A. REHABILITATION/CONTRACTOR SELECTION PROCESS

Only County licensed contractors will be eligible to make housing repairs in the Neighborhood Stabilization First Mortgage Loan Program. All contractors must be licensed and carry proper liability insurance.

B. HOME INSPECTION REQUIREMENTS

Each homebuyer is required to have a private home inspection conducted by a licensed home inspection company or by a licensed building or general contractor. All home inspections must be provided to HCD for review and final approval. The cost associated with this home inspection report is paid directly to the inspection company by the approved FMLP applicant.

Prior to closing, a final inspection will be conducted by HCD to confirm that all repairs as required by Palm Beach County are complete and were done in accordance with all applicable building codes. If HCD determines that certain repairs can be completed after closing, funds can be held in escrow by the title company.

C. HOMEOWNERS AND FLOOD INSURANCE

Homeowner's Insurance coverage for the properties purchased using FMLP loan proceeds, must be sufficient to cover all encumbrances placed against the property or be equal to replacement value. Exceptions to this requirement will be made only in cases where the insurance company accepts, through official certification, that it is acceptable for the coverage to be less than the total value of the encumbrances on the property. Sufficient homeowner's insurance must be maintained at all times. If the FMLP applicant fails to maintain homeowner's insurance, Palm Beach County reserves the right to force place insurance on the property.

Flood insurance is required on all properties purchased with FMLP loans funds, if the property is located within a flood zone.

D. REHABILITATION POLICY

The NSP requires that all NSP assisted rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability in order to sell rent or redevelop such homes and properties. Program requirements also state that all housing units purchased are eligible for rehabilitation.

All rehabilitation undertaken must be consistent with the existing County CDBG rehabilitation policies except that eligible beneficiaries will be required to have income which is at or below 120% of the AMI. All rehabilitation work done under this program will seek to upgrade the property to ensure compliance with applicable municipal, county and state housing and building standards to the extent that the repairs performed are practical and feasible. NSP assisted rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability in order to sell rent or redevelop such homes and properties. Rehabilitation may also include improvements to increase the energy efficiency or conservation of such homes and properties or to provide a renewable energy source or sources for such homes and properties.

All major code, health and safety violations must be repaired prior to occupancy at the expense of either the home buyer or seller. However, if the remaining rehabilitative work is deemed excessive or too extensive (exceeding \$35,000) the property may be disqualified for FMLP funding.

Major code, health and safety violations include (but are not limited to): non-functional plumbing, roof replacement, mold remediation, faulty electrical system, failing septic system, missing exterior doors and windows, structural defects, failing foundations due to termites and/or termite damage.

HCD will only replace code related items (*in lieu of repair*) if the items are either missing or deemed inoperable and beyond repair. Where applicable, installation costs are eligible under FMLP, if loan proceeds have been set aside to replace that item. In cases where appliances, fixtures and the like must be replaced, it is required that those items be replaced with energy efficient products. If appliances, fixtures and the like are in satisfactory working condition, those items cannot be replaced. Remodeling is not an eligible use of FMLP loan proceeds. Only those approved items are eligible for repair and/or replacement. Approved applicants are permitted to use up to \$35,000 of their loan proceeds to rehabilitate the property being purchased. A rehabilitation contract shall list all repairs that are to be made and shall be

executed by the FLMP home buyer and contractor prior to FMLP funds are utilized.

All rehabilitation funds (*either from the County or any other source*) must be escrowed at closing. Prior to funds being released to a contractor, HCD must confirm the final repairs have been made. **Only an HCD Rehabilitation Compliance Inspector or HCD Director can authorize the release of repair funds held in escrow and only approved items are eligible for repairs and rehabilitation.**

EXAMPLES OF ELIGIBLE HOME REPAIRS INCLUDE THE ITEMS LISTED BELOW AND THE LIKE:

- Complete roof repair of deteriorated roofing systems to eliminate substandard or unsafe roofing conditions including gutters (*if roof replacement is required, it must be completed prior to closing by the seller and/or buyer*)
- Broken water pipes
- Water leaks in walls or foundation
- Interior and exterior door replacement including hardware
- Bathroom rehabilitation to include: wall repair, repair/replacement of missing or inoperable tub, sink and toilet
- Garage door repair/replacement
- Windows and window fixtures replacement including screens
- Inoperable hot water heater
- Drywall replacement/repair
- Inoperable exterior doors and windows
- Replacement of missing or inoperable hurricane shutters
- Electrical repairs to include breaker panel upgrades and whole house rewiring
- Gas leaks
- Termite and rodent treatment and repairs
- Kitchen rehabilitation to include: wall repair, repair/replacement of missing or inoperable stove, refrigerator, sink, dishwasher, garbage disposal and cabinets
- Repair of cracked/dangerous driveway
- Repair/replace HVAC system
- Floor covering repair (*or replacement if the floor covering is missing or damaged beyond repair*)
- Insulation
- Repair deteriorated siding/stucco (*to include interior and exterior painting where necessary*)
- Repair of an existing sprinkler system and related items
- Repair of an existing screen and patio enclosures
- Repair of an existing fence
- Repair/replace light fixtures as required by code
- Accommodations in bedroom, bathroom and/or kitchen including removal of all architectural barriers, for persons with disabilities
- Repair of existing lawn sprinkler system when required by code
- Replace existing yard grass (sod) when required by code
- Any other repairs (*i.e. mold remediation*) identified as being in violation of applicable housing and building codes threatening the life, health and safety of the residents

E. SURVEY REQUIREMENTS

If the title company insuring the mortgage requires a survey to remove exception to survey matters, the survey must conform to the requirements of the title insurance company's standards, or any applicable legal standards relating to surveys. A copy of the survey, whether new or existing, is required to be in the closed loan package.

F. FMLP LOAN SERVICING

Mortgage lenders routinely transfer the right to collect mortgage payments (including principal, interest and escrow account payments) and administer the terms of the mortgage loans to other companies in the mortgage business. These rights are referred to as "Servicing Rights." Although Palm Beach County does service some residential mortgage loans, the servicing rights of the FMLP mortgage loan may be assigned, sold or transferred to another mortgage servicer at any time while the loan is outstanding. If this option is exercised by Palm Beach County, the FMLP home buyer will be provided appropriate notice pursuant to the National Affordable Housing Act and requirements of the Department of Housing and Urban Development.

If the servicing of a FMLP loan is assigned, sold, or transferred to a new servicer, the homebuyer will be given written notice of that transfer. Palm Beach County will send them notice in writing of the assignment, sale and/or transfer of the servicing not less than 15 days after the effective date of the transfer. Palm Beach County and the new servicer may combine this information in one notice, so long as the notice is sent to the homebuyer 15 days before the effective date of the transfer. The 15 day period is not applicable if a notice of perspective

transfer is provided to the homebuyer at settlement. The law allows a delay in time (*not more than 30 days after a transfer*) for servicers to notify the homebuyer under certain limited circumstances, when the servicer changes abruptly. This exception applies only if the homebuyers new servicer is fired for cause, is in bankruptcy proceedings, or is involved in a conservatorship or receivership initiated by a Federal Agency.

G. UNDERWRITING GUIDELINES

In cases where the First Mortgage Loan Program policies and underwriting guidelines are silent, HCD will apply standard lending industry underwriting guidelines (*those consistent with Fannie Mae, Freddie Mac or FHA*) to process all NSP first mortgage loan requests.

Some standard underwriting guidelines for the FMLP are follows:

1. All loan funds provided through the FMLP must be in accordance with Federal mandates and policies.
2. If a credit report does not contain a monthly payment on a current credit card account, the applicant will have the option of providing HCD with a current statement and that amount will be used when calculating the total debt ratio. If a current statement is not provided, HCD will use 5% of the credit card balance as the payment when calculating debt.
3. Total debt will not include installment accounts where there are five (5) or fewer payments remaining. However, if the installment account is a lease, it will be counted regardless of how many payments remain.
4. If an applicant has student loans and the deferment period is 12 months or greater, the payment will not be counted within the total debt ratio. If the payment on that student loan is due within 12 months or less, the payment will be included within the total debt ratio.
5. All open/active debts on an applicant's credit report will be considered the applicants debt and will be included in the applicant's total debt ratio. The only exception to this requirement is when the credit report indicates that the FMLP applicant is a co-signor of the debt. In cases of this nature, sufficient documentation confirming the payment is being made by the other party is required. That documentation will be either 12 months cancelled checks or 12 months bank statements showing the automatic withdrawal. If the credit report shows that a particular account is a joint debt with someone else, HCD will count that debt against the FMLP applicant.
6. All FMLP approved applicants will be required to satisfy the requirements (*up to and including paying off*) of certain negative credit items such as child support, student loans, judgments, tax liens and the like.
7. Gift funds, seller's concessions and other forms of subsidy can only be applied to offset the cost of rehabilitation. **These types of additional funds cannot be used to cover the approved homebuyer's contribution or closing costs.** If these types of additional funds are being provided to our applicant, sufficient verification must be supplied. If "gift funds" are being received, it must be verified via executed gift letter and a current bank/investment statement (*which supports the gift amount provided*) from the person or organization providing the gift fund. Seller's concession shall be verified via a signed official letter (*on the bank's letterhead*) or via the purchase agreement. Other subsidies shall be verified via a signed commitment / award letter on the company's letterhead.
8. All income must be considered "permanent income" or order to be eligible for a FMLP mortgage. The income shall be projected using HUD's Part 5 definition and all verification expiration dates will be in accordance with HUD's guidelines and supported by historical income patterns. The Part 5 definition of annual income is the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period.
9. Verification of employment and household income will be secured via a third party verification of employment (VOE) and current paystubs for all eligible household members. If a VOE form cannot be completed, HCD will follow HUD's alternative methods of income verification. If income cannot be sufficiently verified, the applicants FMLP request shall be denied. Sufficient income documentation for a self-employed applicant shall consist of: (1) Three years business tax returns [*complete returns signed by the applicant*], (2) current financial statement [*completed by a qualified third party*] and any other form of income documents deemed necessary by HCD to meet NSP guidelines.
10. It is also required that income be imputed to include household assets. Sufficient verification of assets includes a current VOD and current bank/investment statements. If assets cannot be sufficiently verified, the applicants FMLP request will be denied.
11. We require the "Middle/Lower then Lowest" method to be used when selecting the FICO credit score. If three usable FICO scores are received for an applicant (*when HCD requests a credit report*), the credit score selected would be the middle score. If two of the scores are the same, that score should be used. If only two usable FICO scores are received for an applicant, the lower of those two scores would be that applicant's usable credit score. If one score is received, then that is the usable FICO credit score. If no FICO credit score is received, the applicant's FICO credit score would be considered as zero (0).

12. Co-signors are not allowed on homes purchased with FMLP loan proceeds.
13. In order to meet the seasoning requirement for the applicant contribution, FMLP applicants must provide the necessary bank/investment statements to show monies have been in the applicant's possession for at least 60 days.
14. Each applicant will be required to provide the necessary documentation to verify their household size. Each adult household member will be required to provide a State Identification card or Drivers License. The children within the household will be verified via court documents, birth certificates, tax returns and school records (if necessary). If the adult and/or child are not natural citizens of the United States, additional forms of documentation may be requested.
15. Recipients of the FMLP funds are not permitted to leave the closing table with cash back.
16. Certain types of income may not be eligible for FMLP assistance. HCD will refer to HUD's policy on the types of income that are eligible and ineligible for FMLP.
17. If a FMLP applicant wishes to use either HOME Investment Partnership Program (HOME) funds or State Housing Initiative Partnership (SHIP) Program funds, in conjunction with FMLP funds that loan request must be approved by the Board of County Commissioners (BCC).
18. For the purposes of preparing a Conditional Loan Approval (*which would occur prior to a property being selected*), HCD will employ the following formulas and figures for estimating property taxes, homeowners insurance, Homeowner Association fees and Condominium Fees:

- | | |
|----------------------------------|------------------|
| a. Property Taxes – | 2% x Sales Price |
| b. Homeowners Insurance – | 2% x Sales Price |
| c. Homeowners Association Fee – | \$150 per month |
| d. Condominium Association Fee – | \$300 per month |

Once a property is selected the property tax calculation will be based on PAPA, the homeowners insurance will be based on a quote received from the homeowners insurance company and the Homeowners and Condominium Association fees will reflect the actual costs.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
NEIGHBORHOOD STABILIZATION
FIRST MORTGAGE LOAN PROGRAM (FMLP)**

I. General Information

This program is designed to provide mortgage loan assistance to individuals and households earning up to 120% Area Median Income (AMI). Only those foreclosed, abandoned and vacant residential properties located within the designated "Eligible Areas" can be purchased with this loan funding. The sales price of the dwelling unit cannot exceed \$280,000 and must reflect at least a one percent discount of the appraised value. The home purchased must be the purchaser's primary place of residence. The financing provided will be in the form of a 30 year fixed rate mortgage, with an interest rate not to exceed 4% (APR of 4.5%). **All First Mortgage Loan Program requests are subject to funding availability.**

A. MORTGAGE APPLICATION PROCESS

The application process for a prospective homebuyer commences with the income certification of the applicant. All applicants must be income certified to determine the household's eligibility for the FMLP. All participants will be required to submit a completed application and all supporting documentation as referenced in the application checklist (*please see the attached checklist*). Once all the required documentation has been received, HCD staff will begin the income certification process.

After an applicant has been income certified, the applicant will be provided with a Conditional Loan Approval, which will include: (1) a proposed FMLP loan amount, (2) contact information for the local Realtors Associations, (3) a list of eligible home appraisal companies; and (4) a list of HUD approved Homebuyer Counseling Agencies. The Conditional Loan Approval will require each approved FMLP applicant to identify and select within 45 calendar days an eligible residential property. The Conditional Loan Approval will only guarantee the availability of the NSP loan funds for 45 calendar days (*from the date of certification*). Within the 45 calendar days the approved applicant must provide HCD with: (1) a fully executed sales contract, (2) an acceptable appraisal, and (3) an acceptable home inspection report. FMLP applicants will also be required to secure and provide HCD with a quote for homeowners insurance.

B. PROPERTY SELECTION PROCESS

FMLP funds can only be used to purchase residential properties (*excluding mobile homes*) that are foreclosed, abandoned, vacant, and located within the designated "Eligible Areas." All properties must be purchased at a minimum discount of one percent below the current appraised value. The maximum purchase price (*which includes purchase price plus any needed rehabilitation*) cannot exceed \$280,000. Approved applicants are permitted to use up to \$35,000 of their FMLP loan proceeds to rehabilitate the property being purchased. **The appraised value for all properties purchased through FMLP will be established and determined by a County approved appraiser (*see the list of eligible appraisers*).**

Each applicant is encouraged to work with a local Realtor to locate NSP eligible properties. Once a **fully executed** sales contract has been obtained, the applicant must notify HCD and provide a legible copy of the fully executed sales contract, including all addendums. Additionally, Palm Beach County requires that the attached contract rider adhering to local NSP guidelines be executed by all parties and attached to the purchase contract.

Once a sales contract has been entered into, the approved applicant must employ a County approved appraiser from the list provided. The cost associated with this appraisal is paid directly to the appraisal company by the approved applicant.

Each homebuyer is also required to have a private home inspection conducted by a licensed home inspection company or by a licensed building or general contractor. Please be advised that the cost associated with the home inspection is paid directly to the inspection company by the applicant. Upon completion of the inspection, please provide a copy of the inspection report (*along with proof of payment*) for review and approval by HCD.

Once the approved applicant has acquired the sales contract, appraisal, and inspection report, these items are to be submitted (*along with proof of payment*) directly to HCD. If rehabilitation of the selected property is required, a contractor's estimate should also be provided.

C. OTHER REQUIREMENTS

Each approved FMLP applicant must enroll in an eight (8) hour Homebuyer Counseling Program through a HUD approved counseling agency prior to closing (*a list of HUD approved agencies will be provided*).

II. FIRST MORTGAGE LOAN PROGRAM (FMLP) APPLICATION REVIEW CRITERIA

A. MAXIMUM HOUSING EXPENSE RATIOS

The maximum housing expense ratio (*which includes principal, interest, taxes, insurance, association fees and any mortgage loans secured to purchase the property*) cannot exceed 35.00% of the applicant's monthly household income.

However, in cases where an applicant's total debt ratio does not exceed 40%, the front-end ratio can go up to 37.50%.

An escrow account will be established for real estate taxes, homeowners insurance and flood insurance (if applicable).

B. MAXIMUM TOTAL DEBT RATIOS

The maximum applicant total debt ratio cannot exceed 45.00%.

C. MINIMUM FICO CREDIT SCORE

In order to be eligible for the FMLP, potential applicants/borrowers must have a FICO credit score of at least 500.

D. MAXIMUM INTEREST RATE

FMLP mortgages will be provided at a fixed interest rate not to exceed 4% (APR of 4.5%).

E. ELIGIBLE APPLICANTS AND HOUSEHOLDS

"An eligible person or household" is one or more natural persons or family who has been determined to be of lower income (earning up to 120% AMI) according to the income limits published annually by the United States Department of Housing and Urban Development (HUD). All units rehabilitated, purchased or otherwise assisted with the NSP FMLP must be occupied by eligible persons utilizing the assisted housing unit as their principal residence.

Legal Residency

It is required that **all** borrowers of NSP loan program funds, have legal residency as defined by the Department of Housing and Urban Development. However, where and when Palm Beach County determines additional policies or criteria is appropriate, the FMLP shall be revised to be in compliance.

Please be advised that if the potential applicant is married, both the applicant and their spouse must be legal residents of the United States in order to be eligible for the FMLP. **Valid documentation confirming proof of residency is required for all applicants/borrowers.**

F. MAXIMUM SALES PRICE AND REHABILITATION COSTS

All properties must be purchased at a minimum discount of one percent below the current appraised value. The maximum cost of acquiring the home (*which includes purchase price plus any needed rehabilitation*) cannot exceed \$280,000. The appraised value for all properties purchased through FMLP will be established and determined by a County approved appraiser (*see the list of eligible appraisers*).

Upon approval of a first mortgage loan, an applicant is permitted to use up to \$35,000 of their loan proceeds to rehabilitate the property being purchased. All major code, health and safety violations must be repaired prior to occupancy. If the proposed rehabilitative work is deemed "excessive" (in excess of \$35,000) by a HCD Rehabilitation Compliance Inspector, the rehabilitative work may be disqualified for FMLP funding.

Gift funds and any seller's concessions can be used to offset the cost of the property as well as the repair and rehabilitation.

G. ELIGIBLE AREAS

FMLP mortgage loans are only available to purchase eligible foreclosed and abandoned properties located within the following zip codes:

ZIP CODES	GEOGRAPHIC AREAS
33414, 33467, 33470	Wellington / Loxahatchee Grove / Surrounding Unincorporated Areas
33409, 33413, 33415	Unincorporated Palm Beach County (including Westgate) - South of 45 th Street; East of Turnpike; West of I-95; and North of Lake Worth Road.
33411	Royal Palm Beach / Acreage
33463	Greenacres
33445, 33446, 33484	Unincorporated Palm Beach County - South of Boynton Beach Blvd.; East of Loxahatchee National Wildlife Refuge; West of Military Trail; and North of Clint Moore Road.
33428, 33433, 33434, 33498	Unincorporated Palm Beach County - South of Clint Moore Rd.; East of Loxahatchee National Wildlife Refuge; West of I-95; and North of Broward County line
33458, 33469, 33477	Jupiter / Tequesta / Unincorporated Palm Beach County
33436, 33437	Unincorporated Palm Beach County (including Golf) – South of Gateway Blvd.; East of Loxahatchee National Wildlife Refuge; West of Congress Ave.; and North of Atlantic Ave.
33460	Lake Worth
33404	Riviera Beach
33403	Lake Park
33417	Haverhill
33462	Hypoluxo / Lantana / Atlantis / Manalapan / Unincorporated Palm Beach County
33430	Belle Glade
33476	Pahokee
33493	South Bay
33438	Canal Point

H. INCOME ELIGIBILITY

Eligible households are those with an annual income of up to 120% of the Area Median Income (AMI). Please refer to the chart below. FMLP income eligibility will be based on annual medium family income determinations issued by the Department of Housing and Urban Development (HUD). HUD updates this chart annually; please contact the Housing and Community Development (HCD) Department for more information on income eligibility.

Number of Persons in Household	Very Low Income (50.00%)	Moderate Income (120.00%)
1	\$ 26,400.00	\$ 63,350.00
2	\$ 30,150.00	\$ 72,400.00
3	\$ 33,950.00	\$ 81,450.00
4	\$ 37,700.00	\$ 90,500.00
5	\$ 40,700.00	\$ 97,700.00
6	\$ 43,750.00	\$ 104,950.00
7	\$ 46,750.00	\$ 112,200.00
8	\$ 49,750.00	\$ 119,450.00

* Fiscal Year 2009 Median Family Income Chart. Median income for Palm Beach County is \$67,000.

I. ELIGIBLE HOUSING

Eligible properties are any foreclosed, vacant and abandoned single-family houses, townhouses or condominiums (*excluding mobile homes*), located within the eligible Areas of Greatest Need. **Applicants may only purchase one (1) residence within multi-family properties such as duplexes, triplexes, quadplexes, etc. Additionally, all mobile and manufactured homes are ineligible.**

The property to be purchased **must** be used as the applicants/borrowers' primary residence. Additionally, potential FMLP applicants/borrowers cannot currently own a home or be on the title of any other home.

If the property to be purchased was built in 1978 or before, the homebuyer shall provide a lead-based paint risk assessment which would determine if there is a presence of lead-based paint hazards.

Where applicable, well and septic tank inspections shall also be required for all residential

properties purchased using FMLP proceeds.

HCD staff shall conduct an environmental review of all residential properties purchased using FMLP proceeds. After completion of the review, a clearance notice shall be sent to the FMLP applicant indicating whether or not the residential property received environmental clearance. Notice will include any required mitigation measures. If the residential property fails the environmental review, the applicant will be informed and advised that another residential property must be selected.

J. MINIMUM APPLICANT CONTRIBUTION (DOWN PAYMENT)

Applicants/borrowers must provide a minimum financial contribution. The applicant contribution serves as the down payment on the property to be purchased. The contribution must be verifiable at the time the FMLP application is submitted to HCD.

The minimum applicant contribution for a household that is 50.00% or below the AMI (*Very Low Income*) is one percent (1%) of the total cost to purchase and rehabilitate the property.

The minimum applicant contribution for a household that is between 51.00% and 120.00% of AMI (*Low and Moderate Income*) is two percent (2%) of the total cost to purchase and rehabilitate the property.

However, a household's total liquid assets in excess of \$250,000 will increase the minimum applicant contribution to ten percent (10%) of the total cost to purchase and rehabilitate the property. *Please refer to the Maximum Asset Limit policy below.*

K. MAXIMUM HOUSEHOLD ASSET LIMIT

If an eligible household's total "liquid assets" equal or exceed \$250,000, that household will be required to provide a minimum applicant contribution of ten percent (10%) of the total cost to purchase and rehabilitate the property. Liquid assets are defined as cash or any type of negotiable asset that can be converted quickly and easily into cash. *Please refer to the policy on Minimum Applicant Contribution.*

L. CLOSING COSTS

All eligible low and moderate FMLP applicants will be responsible for paying the closing costs associated with the purchase of the eligible property. Closing costs cannot be paid using FMLP loan funds or another subsidy source. However, gift funds or seller concessions may be used to pay closing costs.

However, the closing costs for very-low income applicants may be paid utilizing FMLP funds, gift funds, and seller concessions.

M. TITLE TRANSFERS AND CHANGES

Palm Beach County must consent to all property interest transfers including, but not limited to transfers between owners. The County will only approve such requests in limited circumstances such as death, divorce or other special circumstances. Any unapproved transfer of interests will automatically (*and immediately*) require full repayment of the entire first mortgage loan.

N. INSURANCE

Homeowner's insurance coverage for the properties purchased using FMLP loan proceeds, must be sufficient to cover all encumbrances placed against the property or be equal to replacement value.

If the property being purchased is located within an identified flood zone, the applicant will be required to purchase and maintain flood insurance.

O. HOMEBUYER EDUCATION CERTIFICATE AND CERTIFICATION

All applicants seeking participation in the First Mortgage Loan Program are required to enroll in a home buyer education course for no less than six (6) hours in a classroom

setting plus two (2) hours one-on-one counseling with a HUD approved Homebuyer Counseling Agency prior to closing (*a list of approved agencies is attached*). Upon successful completion of the Homebuyer Counseling Training, all applicants seeking participation in the First Mortgage Loan Program are required to have the provider of the home buyer education course certify their enrollment and completion of the course and provide the original Homebuyer Education Program Certification and the original Certificate of Training to HCD.

P. HOME INSPECTIONS

In addition to an HCD inspection of the home selected, **each homebuyer will be required to have a private home inspection.** All existing residential properties to be purchased utilizing FMLP loan proceeds shall have an inspection conducted by a licensed Inspection Company or by a licensed building or general contractor. A copy of that inspection report shall be provided for review and approval by Palm Beach County.

Prior to closing, a final inspection shall be conducted by HCD to confirm that all repairs required by Palm Beach County are complete and were done in accordance with all applicable building codes.

Q. HOME REPAIR AND REHABILITATION

The NSP requires that all NSP assisted rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability in order to sell rent or redevelop such homes and properties. Program requirements also state that all housing units purchased are eligible for rehabilitation.

All rehabilitation undertaken must be consistent with the existing County CDBG rehabilitation policies except that eligible beneficiaries will be required to have income which is at or below 120% of the AMI. All rehabilitation work done under this program will seek to upgrade the property to ensure compliance with applicable municipal, county and state housing and building standards to the extent that the repairs performed are practical and feasible. NSP assisted rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability in order to sell rent or redevelop such homes and properties. Rehabilitation may also include improvements to increase the energy efficiency or conservation of such homes and properties or to provide a renewable energy source or sources for such homes and properties.

Applicants are encouraged to purchase properties needing the least amount of rehabilitation. The maximum allowable costs for the rehabilitation of an identified housing unit shall not exceed \$35,000 when FMLP funds are used. The homebuyer may however use personal funds or gift to funds for rehabilitation costs in excess of \$35,000. All rehabilitation funds (*either from the County or any other source*) shall be escrowed at closing. Prior to funds being released to a contractor, HCD will confirm the final repairs have been made. **Only an HCD Rehabilitation Compliance Inspector or the HCD Director can authorize the release of repair funds held in escrow.** *Please refer to the Rehabilitation Policy for eligible home repairs.*

R. UNDERWRITING

In cases where the FMLP policies and underwriting guidelines are silent, HCD will apply standard lending industry underwriting guidelines (*those consistent with Fannie Mae, Freddie Mac or FHA*) to process all FMLP loan requests. *Please refer to the FMLP Guidelines for some of the standard underwriting practices.*

III. FIRST MORTGAGE LOAN PROGRAM (FMLP) POLICIES AND PROCEDURES

A. REHABILITATION/CONTRACTOR SELECTION PROCESS

Only County licensed contractors will be eligible to make housing repairs in the Neighborhood Stabilization First Mortgage Loan Program. All contractors must be licensed and carry proper liability insurance.

B. HOME INSPECTION REQUIREMENTS

Each homebuyer is required to have a private home inspection conducted by a licensed home inspection company or by a licensed building or general contractor. All home inspections must be provided to HCD for review and final approval. The cost associated with this home inspection report is paid directly to the inspection company by the approved FMLP applicant.

Prior to closing, a final inspection will be conducted by HCD to confirm that all repairs as required by Palm Beach County are complete and were done in accordance with all applicable building codes. If HCD determines that certain repairs can be completed after closing, funds can be held in escrow by the title company.

C. HOMEOWNERS AND FLOOD INSURANCE

Homeowner's Insurance coverage for the properties purchased using FMLP loan proceeds, must be sufficient to cover all encumbrances placed against the property or be equal to replacement value. Exceptions to this requirement will be made only in cases where the insurance company accepts, through official certification, that it is acceptable for the coverage to be less than the total value of the encumbrances on the property. Sufficient homeowner's insurance must be maintained at all times. If the FMLP applicant fails to maintain homeowner's insurance, Palm Beach County reserves the right to force place insurance on the property.

Flood insurance is required on all properties purchased with FMLP loans funds, if the property is located within a flood zone.

D. REHABILITATION POLICY

The NSP requires that all NSP assisted rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability in order to sell rent or redevelop such homes and properties. Program requirements also state that all housing units purchased are eligible for rehabilitation.

All rehabilitation undertaken must be consistent with the existing County CDBG rehabilitation policies except that eligible beneficiaries will be required to have income which is at or below 120% of the AMI. All rehabilitation work done under this program will seek to upgrade the property to ensure compliance with applicable municipal, county and state housing and building standards to the extent that the repairs performed are practical and feasible. NSP assisted rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability in order to sell rent or redevelop such homes and properties. Rehabilitation may also include improvements to increase the energy efficiency or conservation of such homes and properties or to provide a renewable energy source or sources for such homes and properties.

All major code, health and safety violations must be repaired prior to occupancy at the expense of either the home buyer or seller. However, if the remaining rehabilitative work is deemed excessive or too extensive (exceeding \$35,000) the property may be disqualified for FMLP funding.

Major code, health and safety violations include (but are not limited to): non-functional plumbing, roof replacement, mold remediation, faulty electrical system, failing septic system, missing exterior doors and windows, structural defects, failing foundations due to termites and/or termite damage.

HCD will only replace code related items (*in lieu of repair*) if the items are either missing or deemed inoperable and beyond repair. Where applicable, installation costs are eligible under FMLP, if loan proceeds have been set aside to replace that item. In cases where appliances, fixtures and the like must be replaced, it is required that those items be replaced with energy efficient products. If appliances, fixtures and the like are in satisfactory working condition, those items cannot be replaced. Remodeling is not an eligible use of FMLP loan proceeds. Only those approved items are eligible for repair and/or replacement. Approved applicants are permitted to use up to \$35,000 of their loan proceeds to rehabilitate the property being purchased. A rehabilitation contract shall list all repairs that are to be made and shall be executed by the FLMP home buyer and contractor prior to FMLP funds are utilized.

All rehabilitation funds (*either from the County or any other source*) must be escrowed at closing. Prior to funds being released to a contractor, HCD must confirm the final repairs have been made. **Only an HCD Rehabilitation Compliance Inspector or HCD Director can authorize the release of repair funds held in escrow and only approved items are eligible for repairs and rehabilitation.**

EXAMPLES OF ELIGIBLE HOME REPAIRS INCLUDE THE ITEMS LISTED BELOW AND THE LIKE:

- Complete roof repair of deteriorated roofing systems to eliminate substandard or unsafe roofing conditions including gutters (*if roof replacement is required, it must be completed prior to closing by the seller and/or buyer*)
- Broken water pipes
- Water leaks in walls or foundation
- Interior and exterior door replacement including hardware
- Bathroom rehabilitation to include: wall repair, repair/replacement of missing or inoperable tub, sink and toilet
- Garage door repair/replacement
- Windows and window fixtures replacement including screens
- Inoperable hot water heater
- Drywall replacement/repair
- Inoperable exterior doors and windows
- Replacement of missing or inoperable hurricane shutters
- Electrical repairs to include breaker panel upgrades and whole house rewiring
- Gas leaks
- Termite and rodent treatment and repairs
- Kitchen rehabilitation to include: wall repair, repair/replacement of missing or inoperable stove, refrigerator, sink, dishwasher, garbage disposal and cabinets
- Repair of cracked/dangerous driveway
- Repair/replace HVAC system
- Floor covering repair (*or replacement if the floor covering is missing or damaged beyond repair*)
- Insulation
- Repair deteriorated siding/stucco (*to include interior and exterior painting where necessary*)
- Repair of an existing sprinkler system and related items
- Repair of an existing screen and patio enclosures
- Repair of an existing fence
- Repair/replace light fixtures as required by code
- Accommodations in bedroom, bathroom and/or kitchen including removal of all architectural barriers, for persons with disabilities
- Repair of existing lawn sprinkler system when required by code
- Replace existing yard grass (sod) when required by code
- Any other repairs (*i.e. mold remediation*) identified as being in violation of applicable housing and building codes threatening the life, health and safety of the residents

E. SURVEY REQUIREMENTS

If the title company insuring the mortgage requires a survey to remove exception to survey matters, the survey must conform to the requirements of the title insurance company's standards, or any applicable legal standards relating to surveys. A copy of the survey, whether new or existing, is required to be in the closed loan package.

F. FMLP LOAN SERVICING

Mortgage lenders routinely transfer the right to collect mortgage payments (including principal, interest and escrow account payments) and administer the terms of the mortgage loans to other companies in the mortgage business. These rights are referred to as "Servicing Rights." Although Palm Beach County does service some residential mortgage loans, the servicing rights of the FMLP mortgage loan may be assigned, sold or transferred to another mortgage servicer at any time while the loan is outstanding. If this option is exercised by Palm Beach County, the FMLP home buyer will be provided appropriate notice pursuant to the National Affordable Housing Act and requirements of the Department of Housing and Urban Development.

If the servicing of a FMLP loan is assigned, sold, or transferred to a new servicer, the homebuyer will be given written notice of that transfer. Palm Beach County will send them notice in writing of the assignment, sale and/or transfer of the servicing not less than 15 days after the effective date of the transfer. Palm Beach County and the new servicer may combine this information in one notice, so long as the notice is sent to the homebuyer 15 days before the effective date of the transfer. The 15 day period is not applicable if a notice of prospective transfer is provided to the homebuyer at settlement. The law allows a delay in time (*not more*

than 30 days after a transfer) for servicers to notify the homebuyer under certain limited circumstances, when the servicer changes abruptly. This exception applies only if the homebuyer's new servicer is fired for cause, is in bankruptcy proceedings, or is involved in a conservatorship or receivership initiated by a Federal Agency.

G. UNDERWRITING GUIDELINES

In cases where the First Mortgage Loan Program policies and underwriting guidelines are silent, HCD will apply standard lending industry underwriting guidelines (*those consistent with Fannie Mae, Freddie Mac or FHA*) to process all NSP first mortgage loan requests.

Some standard underwriting guidelines for the FMLP are follows:

1. All loan funds provided through the FMLP must be in accordance with Federal mandates and policies.
2. If a credit report does not contain a monthly payment on a current credit card account, the applicant will have the option of providing HCD with a current statement and that amount will be used when calculating the total debt ratio. If a current statement is not provided, HCD will use 5% of the credit card balance as the payment when calculating debt.
3. Total debt will not include installment accounts where there are five (5) or fewer payments remaining. However, if the installment account is a lease, it will be counted regardless of how many payments remain.
4. If an applicant has student loans and the deferment period is 12 months or greater, the payment will not be counted within the total debt ratio. If the payment on that student loan is due within 12 months or less, the payment will be included within the total debt ratio.
5. All open/active debts on an applicant's credit report will be considered the applicant's debt and will be included in the applicant's total debt ratio. The only exception to this requirement is when the credit report indicates that the FMLP applicant is a co-signor of the debt. In cases of this nature, sufficient documentation confirming the payment is being made by the other party is required. That documentation will be either 12 months cancelled checks or 12 months bank statements showing the automatic withdrawal. If the credit report shows that a particular account is a joint debt with someone else, HCD will count that debt against the FMLP applicant.
6. All FMLP approved applicants will be required to satisfy the requirements (*up to and including paying off*) of certain negative credit items such as child support, student loans, judgments, tax liens and the like.
7. Gift funds, seller's concessions and other forms of subsidy can only be applied to offset the cost of rehabilitation. **These types of additional funds cannot be used to cover the approved homebuyer's contribution or closing costs.** If these types of additional funds are being provided to our applicant, sufficient verification must be supplied. If "gift funds" are being received, it must be verified via executed gift letter and a current bank/investment statement (*which supports the gift amount provided*) from the person or organization providing the gift fund. Seller's concession shall be verified via a signed official letter (*on the bank's letterhead*) or via the purchase agreement. Other subsidies shall be verified via a signed commitment / award letter on the company's letterhead.
8. All income must be considered "permanent income" or order to be eligible for a FMLP mortgage. The income shall be projected using HUD's Part 5 definition and all verification expiration dates will be in accordance with HUD's guidelines and supported by historical income patterns. The Part 5 definition of annual income is the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period.
9. Verification of employment and household income will be secured via a third party verification of employment (VOE) and current paystubs for all eligible household members. If a VOE form cannot be completed, HCD will follow HUD's alternative methods of income verification. If income cannot be sufficiently verified, the applicant's FMLP request shall be denied. Sufficient income documentation for a self-employed applicant shall consist of: (1) Three years business tax returns [*complete returns signed by the applicant*], (2) current financial statement [*completed by a qualified third party*] and any other form of income documents deemed necessary by HCD to meet NSP guidelines.
10. It is also required that income be imputed to include household assets. Sufficient verification of assets includes a current VOD and current bank/investment statements. If assets cannot be sufficiently verified, the applicant's FMLP request will be denied.
11. We require the "Middle/Lower then Lowest" method to be used when selecting the FICO credit score. If three usable FICO scores are received for an applicant (*when HCD requests a credit report*), the credit score selected would be the middle score. If two of the scores are the same, that score should be used. If only two usable FICO scores are received for an applicant, the lower of those two scores would be that applicant's usable credit score. If one score is received, then that is the usable FICO credit score. If no FICO credit score is received, the applicant's FICO credit score would be considered as zero (0).
12. Co-signors are not allowed on homes purchased with FMLP loan proceeds.

13. In order to meet the seasoning requirement for the applicant contribution, FMLP applicants must provide the necessary bank/investment statements to show monies have been in the applicant's possession for at least 60 days.
14. Each applicant will be required to provide the necessary documentation to verify their household size. Each adult household member will be required to provide a State Identification card or Drivers License. The children within the household will be verified via court documents, birth certificates, tax returns and school records (if necessary). If the adult and/or child are not natural citizens of the United States, additional forms of documentation may be requested.
15. Recipients of the FMLP funds are not permitted to leave the closing table with cash back.
16. Certain types of income may not be eligible for FMLP assistance. HCD will refer to HUD's policy on the types of income that are eligible and ineligible for FMLP.
17. If a FMLP applicant wishes to use either HOME Investment Partnership Program (HOME) funds or State Housing Initiative Partnership (SHIP) Program funds, in conjunction with FMLP funds that loan request must be approved by the Board of County Commissioners (BCC).
18. For the purposes of preparing a Conditional Loan Approval (*which would occur prior to a property being selected*), HCD will employ the following formulas and figures for estimating property taxes, homeowners insurance, Homeowner Association fees and Condominium Fees:
 - a. Property Taxes – 2% x Sales Price
 - b. Homeowners Insurance – 2% x Sales Price
 - c. Homeowners Association Fee – \$150 per month
 - d. Condominium Association Fee – \$300 per month

Once a property is selected the property tax calculation will be based on PAPA, the homeowners insurance will be based on a quote received from the homeowners insurance company and the Homeowners and Condominium Association fees will reflect the actual costs.