OCD HOMEOWNERSHIP UNDERWRITING PROCESS

BACKGROUND

In accordance with the 2013 HOME Final Rule (CFR 92.254(f)), the State of Ohio must have written policies for underwriting, predatory lending, refinancing/subordinating, and subsidy layering for Down Payment Assistance (DPA)/Rehabilitation projects. Grantees are no longer permitted to set fixed amounts of assistance (set DPA amounts, percentages of purchase price, etc.). The direct subsidy amount of the project cannot be a fixed amount and/or cannot have a maximum limit that is less than the Office of Community Development's (OCD) current limit of assistance for that activity. The direct subsidy must be based on the minimum amount required to obtain the mortgage (down payment, closing costs, mortgage buy down, etc.). The total project costs (direct subsidy + rehabilitation hard costs + soft costs, in any combination) must be less than or equal to OCD's current limit of assistance.

The underwriting must demonstrate that the grantee is not investing more HOME funds, alone or through subsidy layering, than is necessary to provide quality, affordable, and financially viable housing through the affordability period, at a minimum. OCD is addressing these requirements by doing the following:

Underwriting – OCD is providing a minimal underwriting process to follow (see green tab at the bottom of this Excel spreadsheet). This spreadsheet is available for download in OCEAN's Help Menu. Grantees must either use the provided spreadsheet or develop their own that meets the minimum requirements outlined above, contains the same information, and adheres to the same requirements as the OCD spreadsheet, including provided comments. If the grantee chooses to develop its own process, it must be submitted to OCD for approval. Evidence of underwriting must be included in each project file.
Note: Grantees should check for periodic updates to the spreadsheet.

Predatory Lending – Following the provided underwriting process will assist in preventing or deterring predatory lending.

Refinancing/Subordinating – Grantees must revise the current subordination policy in their local policies and procedures manual to be consistent with the 2013 HOME Final Rule. Should a beneficiary decide to refinance his or her primary mortgage, the policy must consider the purpose and the terms of the new loan in a manner consistent with the underwriting process. The policy must be submitted to OCD for approval.

Subsidy Layering - If other funding sources are being spent to complete the homebuyer purchase, following the provided underwriting process or local approved process will assist in meeting the necessary subsidy layering requirements.

Grantees may accept underwriting documentation demonstrating assistance feasibility from a non-profit organization that also provides first mortgage financing or homeownership projects provided the terms are specified in the written agreement between the grantee and non-profit organization. The grantee must review and approve the project information, including underwriting process and eligibility verification. The grantee must include evidence of the review in each project file.

Grantees must continue to adhere to the current OCD Finance Mechanism policy.

The 2013 HOME Final Rule also requires that upon completing homeownership projects, all major systems must have a useful life of at least five years (CFR 92.251(b)(1). Rehabilitation must be complete on DPA/Rehabilitation projects within six months of the lender's closing date. Life-threatening deficiencies must be addressed prior to occupancy.

OCD HOMEOWNERSHIP UNDERWRITING PROCESS

PRINT

HOMEBUYER AFFORDABILITY ANALYSIS

Buyer's Name:
Project Address:
HUD HOME Homeownership Value/After-Rehab Value Limit:
Purchase/After-Rehab Value of this property: (must be equal to or less than G8)
Buyer's Homebuyer's Counseling Certificate Date: (must complete before loan closing)
Uniform Relocation Act (URA) Willing Sale Form Date: (signed by seller prior to closing)
Lender's Closing Date
Name of Lender (see comment G13)**:**

> **Evaluate the financial institution by considering the following:**
> - is it established and respected in the community?
> - does it have a reputation of working with households facing financial challenges rather than foreclosing?
> - does it penalize for paying loans off early?
> - are its loan details comparable to other available loans?

HOUSING-TO-INCOME RATIO ANALYSIS *(Front-End Ratio)*

	Gross Household Monthly Income:	
times	Housing-to-Income Ratio: (maximum 30% of buyer's gross monthly income)	30.0%
equals	**Maximum Possible Monthly PITI Payment *(Front-End):***	$ -

TOTAL DEBT-TO-INCOME RATIO ANALYSIS *(Back-End Ratio)*

	Gross Household Monthly Income:	$ -
times	Debt-to-Income Ratio: (maximum 43% buyer's gross monthly income, see comment G24)	43.0%
equals	**Maximum Monthly Debt Including PITI *(Back-End):***	$ -
minus	Monthly Debt Payments: (includes all fixed monthly debt, see comment G27)	
equals	**Maximum Possible Monthly PITI Payment *(Back-End)* :**	$ -

> A higher ratio may be considered with strong compensating factors: high credit scores, stable employment history, potential for increased earnings, ability to save; reputable lender based on evaluation criteria in

> **Includes:** installment loans (auto, equity, student), credit cards (minimum monthly payment), child support, and alimony. **Excludes**: mortgage/rent payments, utilities, cell phones, day-to-day living expenses

FRONT-END RATIO vs. BACK-END RATIO ANALYSIS

Maximum Possible Monthly PITI Payment Front-End*:*	$ -	
Maximum Possible Monthly PITI Payment Back-End:	$ -	
Lesser of Possible Monthly PITI Payments:	$ -	**Maximum PITI**

MORTGAGE PAYMENT AND AFFORDABILITY GAP ANALYSIS

DIRECT SUBSIDY ANALYSIS

	AMOUNT OF APPRAISAL (cannot be less than purchase price)	
	LENDER'S REQUIRED DOWN PAYMENT	
	CONTRACT PURCHASE AMOUNT	
plus	Buyer's Closing Costs (should not exceed 5% of purchase amount, see comment G43)	
minus	Lender Mortgage Amount	
minus	Buyer's Down Payment	
minus	Other Source Down Payment (must be eligible to combine with OCD funds)	
minus	Available Liquid Assets (see comment G47)	
	CHIP PROGRAM DIRECT SUBSIDY (minimum $1,000, see comment G48)	$ -

> Closing costs should be based on the good faith estimate and should be reasonable and comparable to other available loans.

> **Include:** checking and savings account balances in excess of 6 months worth of living expenses for emergency funds

> Minimum $1,000 can be achieved by considering rehabilitation dollars that will be added to the project after homebuyer closing.

ACTUAL MONTHLY MORTGAGE PAYMENT

ACTUAL MONTHLY MORTGAGE PITI PAYMENT: (cannot exceed F34)
First Mortgage Interest Rate (see comment G52):
Fixed Interest Rate/Variable Interest Rate:
(If variable rate, the maximum rate cannot result in PITI exceeding 30% of buyer's gross monthly income, G19)
If variable interest rate, enter the maximum PITI
First Mortgage Term (years) (see comment G56):
Actual Housing-to-Income Ratio (maximum 30% of buyer's gross monthly income, G19)

> **Reasonable interest rate:** within 2% of prime rate for good credit, within 5% of prime rate for substandard credit

> Is the term of the loan reasonable to keep the loan payments affordable and to minimize the total interest owed? The term should typically be 30 years. USDA Rural Development loans may be longer. **Balloon payments are prohibited.**

TOTAL BUYER'S CONTRIBUTION

PROGRAM REQUIREMENTS

	Buyer's Down Payment (from G45)	$ -
plus	Buyer's Contribution Outside of Closing	
equals	**TOTAL BUYER'S CONTRIBUTION:** (minimum $500)	$ -