

# PENNSYLVANIA HOUSING FINANCE AGENCY

## HOMEstead PROGRAM

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### APPENDICES

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### FORMS

<a href="#">Form 54A</a> - Second Mortgage Note and HOME Agreement	Required on all HOMEstead loans
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## INTRODUCTION

The HOMEstead Program provides subordinate mortgage financing up to \$10,000 for qualified first-time homebuyers. The financing is made available in combination with a first mortgage funded through PHFA under its mortgage revenue bond program. The second mortgage is also provided by PHFA but uses funds from the HOME Investment Partnership Program (HOME) and the American Dream Downpayment Initiative (ADDI), both of which are administered by the U.S. Department of Housing and Urban Development (HUD). The program is intended to assist first-time homebuyers with their down payment and closing costs. The amount of funds approved will depend upon the need of the borrowers. It may be used to lower the front end ratio to 30 percent; further reduction in the front end ratio is permitted to offset any remaining housing shock.

The HOMEstead mortgage is a non-interest bearing loan with no monthly payment. HOMEstead loans are forgiven on an annual basis over five years. The first mortgage can be an FHA insured, VA or RHS Guaranteed or a conventional loan which is originated in accordance with the Homeownership Program guidelines, including the Master Origination and Sale Agreement and the Seller's Guide. These loans are sold "service released" to the Agency.

Lenders are responsible to determine that Borrowers comply with **both** the PHFA Bond program guidelines as detailed in the Seller's Guide **and** the HOME Program guidelines in this Program Guide.

## AVAILABILITY OF FUNDS/RESERVATION PROCEDURE

Reservation of funds for the HOMEstead program is on a first-come, first-serve basis done in conjunction with the reservation of funds for the Agency's Homeownership Program. The process will follow the current procedure now in effect. The HOMEstead Program is designated with a special Subissue (72), and it will be essential that the Subissue be referenced on the Reservation Form ([Form 18](#)) when being reserved by fax. When the loan is reserved over the Internet Reservation System, the system will assign the SubIssue and Series.

## ELIGIBLE LENDING AREAS

Due to the HOME regulations, some areas of the state are not eligible for HOMEstead funds administered by the Agency. These areas are known by HUD as Participating Jurisdictions (PJ's) and they have received their own allocation of funds, therefore, excluding them from the funds allocated to the Agency. (See Appendices 1 or 2 for a listing of eligible areas).

Borrowers pursuing a home purchase in the areas not included in the Agency's HOMEstead Program may still be eligible for this program if they are purchasing a new home in a development that has received financing through the Agency's [Homeownership Choice Program](#) as long as that jurisdiction has not received its own allocation of ADDI funding from HUD. Or the borrower may be eligible for a first mortgage through the Agency and a second HOME funded mortgage through their participating locality, depending on the guidelines in that specific locality. Borrowers should contact the [Department of Community and Economic Development](#) regarding availability of funds in their area.

## **BORROWER(S) ELIGIBILITY**

- 1. Borrower(s) must be a first-time homebuyer** (i.e. has not at anytime during the three years preceding the date of loan closing had an ownership interest in a principal residence). In addition, a Borrower eligible for Assistance may not have an interest in any other real estate or an interest in a business other than the business which is his/her primary source of income. This requirement applies to all persons living in the property. Borrower(s) acquiring a home in a Target Area (see PHFA's Keystone program for a list of "targeted" areas) are not required to be first-time homebuyers **IF:**
  - The borrower is a single parent which is defined as an individual who is unmarried or legally separated from a spouse; and has one or more minor children for whom the individual has custody or joint custody; or is pregnant.

**OR**

  - The borrower owns or has owned a principal residence during the three-year period before loan closing but the residence was not permanently affixed to real property or was not in compliance with state, local, or Model Building Codes and cannot be brought into compliance with such codes, or other applicable codes, for less than the cost of constructing a permanent structure.
- 2. Borrower(s) must not have income which exceeds the Program Income Limits** for the geographic area ([See Appendix 1](#)) in which the single family residence being acquired is located. PLEASE NOTE: The income limits are based on 80 percent of the Area Median Income (AMI) and differ from those of the PHFA Keystone Program limits, however, calculation of income for qualification is computed in the same manner as the income requirements of the Mortgage Revenue Bond Program. (See Seller's Guide 204.3) Please note that an unborn child cannot be included in the family size to determine the number of family members for income limit purposes.
- 3. No person who is an employee, agent, consultant, officer, or elected or appointed official of the Pennsylvania Department of Community and Economic Development, [formerly the Department of Community Affairs] or the Pennsylvania Housing Finance Agency, who has participated in or is participating in any functions or responsibilities related to the HOMEstead Program or has had or has access to inside information regarding the HOMEstead Program, is not eligible to receive a HOMEstead Program loan.**

## **LOAN FEATURES AND GUIDELINES**

- 1. The amount of the HOMEstead mortgage is limited to no less than \$1,000 and no more than \$10,000.** Loans are forgiven on an annual basis over five years. (Please note that PHFA does not require the assistance to be entered as a subordinate loan for DU/LP purposes; instead, it can be listed as an asset.)
- 2. The loan must finance the purchase of a single family owner-occupied (1 unit) residence.** Loan proceeds cannot finance any of the following: the acquisition of personal property; land not adjoining to the Residence; land adjoining the Residence but not necessary to maintaining the basic livability of the Residence and which provides, other than incidentally, a source of income to the Borrower(s); settlement and financing costs which are in excess of that considered usual and reasonable.

3. The loan cannot refinance an existing loan or acquire or replace existing mortgages of the Borrower(s) for the property, except for some types of temporary financing. (See Seller's Guide 205.2).
4. The Closing Date of the loan **cannot** precede the Approval Notification Date on the Approval Letter.
5. The amount of the first mortgage with Conventional financing cannot exceed 97% of the lesser of the Appraised Value or the Purchase Price of the property.

### **PROPERTY GUIDELINES**

1. Existing properties must have been built **after** 1978 due to HUD's lead-based paint regulations which require that homes built **prior** to 1978 must be inspected for any chipping, peeling, flaking, loose, scaling or cracking paint. If any of these paint conditions exist, the home must be tested for lead-based paint. The borrower and seller would negotiate on who pays for the test. Then, depending on the results, there could be additional costs involved. Therefore, PHFA has elected to limit its HOMEstead program to those homes that are not affected by the regulations.

The Agency may still provide assistance under the HOMEstead Program for homes that were built before 1978 **IF**:

- The borrower is purchasing the home from a local housing or redevelopment authority or a non-profit organization which has recently remodeled the home and would be able to certify in writing that it contains no lead-based paint.

#### **OR**

- Based upon an inspection (appraisal) of the property, it was found to be clear of any chipping, peeling, flaking, loose, scaling or cracking paints both on the interior and exterior.
2. The Acquisition Cost of the Residence must not exceed the applicable Program Acquisition Cost Limits ([See Appendix 2](#)). The Acquisition Cost is calculated in the same manner as in the Mortgage Revenue Bond Program. (Section 205 of the Seller's Guide). The estimated appraised value at acquisition, or after any needed repairs to meet the property standards as required by the [Property Inspection Checklist](#), also can not exceed these limits. All properties must be single units. Two units are not acceptable under the HOMEstead program.
  3. **For existing homes only**, an FHA appraisal must be obtained. Any adverse property conditions noted by the appraiser must be documented. In addition, a Property Inspection Checklist ([Appendix 5](#)) must be completed and signed by the Appraiser and submitted along with the appraisal in the Credit/Pre-Compliance Submission Package. The appraiser must be paid an additional Property Inspection Fee not to exceed \$150. This fee is paid for by the borrower but can be included in the HOMEstead assistance. All existing homes must be appraised by an FHA appraiser and reviewed by a Direct Endorsement underwriter. FHA lenders must have their Direct Endorsement (DE) underwriter complete and sign the Conditional Commitment—even on a conventional loan. Lenders who are not approved as a non-supervised FHA lender doing a HOMEstead loan conventionally, must still obtain an FHA appraisal since the HOME guidelines require that the property meets FHA minimum property standards, no matter what type of financing is being obtained, a DE Underwriter at

the Agency will determine what repairs will need to be completed prior to loan closing for the conventional lenders. Properties insured by RHS or VA must also meet their prospective property requirements in addition to the FHA minimum property standards. VA loans can only be done by VA approved lenders. The final disposition of the conditions needing correction must be documented on the Compliance Inspection Report Form HUD-92051 ([Appendix 8](#)). A copy of the final Compliance Inspection Report must be submitted with the purchase package.

4. **For newly constructed homes**, a conventional appraisal may be obtained (unless the loan is FHA insured, VA or RHS guaranteed). All properties must meet the Pennsylvania Uniform Construction Code and any applicable local building codes. A construction completion certification and a use and occupancy certification is required on all newly constructed homes.
5. Unless the borrower(s) is the tenant, no property that was tenant-occupied at the time the Agreement of Sale was signed can participate in the program. This is due to the federal Uniform Relocation Act that applies to HOME funding. The Seller of the home must certify that the home is not tenant-occupied. The Notice to Seller ([Appendix 7](#)) is to be executed during the application process and a copy is to be submitted in the Credit/Pre-Compliance Submission to the Agency.

### **CALCULATION OF ASSISTANCE**

1. The amount of the assistance is based on the borrower(s) needs. For conventional loans, the borrower(s) is required to contribute at least three percent of their own funds towards the down payment and/or closing costs. If the borrower(s) has a credit score (middle FICO) of at least 660, the required amount of down money that must be from their own funds is \$1,000. In either case, the HOMEstead loan may be used for the remaining down payment required and/or the balance of closing costs and any additional down payment necessary to make the purchase affordable to the homebuyer. For FHA loans, the HOMEstead funds can be used to cover the borrower's required investment and any closing costs not being paid by the seller or financed in the first mortgage amount. For VA or RHS loans, the HOMEstead funds can be used for down payment and/or closing costs.
2. HOMEstead funds may be used to lower the front end ratio to 30 percent and to help cover closing costs. Assistance can not be used to offset a high back-end ratio. Please note, all funds must be utilized to their fullest extent before applying HOMEstead funds. This includes cash and gifts, grants, seller assistance, land equity, liquid assets in excess of \$5,000, etc.
3. In order to calculate the amount of assistance needed, a Needs Assessment Form ([Appendix 3](#)) must be completed. The Borrower(s) may retain up to \$5,000 of their own funds after closing. Assets include those of all adults intending to occupy the property.
4. The maximum amount of assistance is limited to \$10,000, and the minimum amount of assistance is \$1,000.

### **FUNDING PROCEDURES**

1. The HOMEstead Needs Assessment Form ([Appendix 3](#)) is to be completed by the lender and included in the Credit/Pre-Compliance Submission.

2. After the loan is approved by PHFA, a check in an amount rounded up to the nearest dollar will be mailed to the lender. The PHFA Approval Notification will specify the amount of HOMEstead assistance that has been approved. The check will be attached to the original copy of the Needs Assessment Form with the appropriate section completed by PHFA.
3. At Closing, the lender is to disburse funds only for the actual amount of assistance needed, up to the amount initially approved and issued by PHFA. Cash back to the borrower is limited to \$100 in excess of reimbursement for POC items. Any additional funds must be reimbursed to PHFA, and the HOMEstead loan must be reduced accordingly (or the first mortgage when there is no PHFA second).
4. After Closing, the lender is to forward to the Agency the following items with the Purchase Submission:
  - A. A copy of the HUD 1 Settlement Sheet verifying the actual amount of HOMEstead assistance disbursed at closing;
  - B. A refund check payable to PHFA for any unused HOMEstead loan funds, rounded off to the nearest dollar, (if the amount exceeds \$100).

### **LOAN DOCUMENTS**

1. In addition to the HOMEstead Appendices mentioned in these guidelines, the following documentation is required.
2. A second mortgage note ([Form 54A](#)) and mortgage instrument ([Form 55](#)) payable to the Pennsylvania Housing Finance Agency shall be executed for each HOMEstead loan for the amount of the actual assistance, rounded up to the nearest dollar, (original amount of the check from PHFA minus the amount of the check from the lender refunding any excess assistance). The interest rate in the documents shall be at zero percent.
3. A second mortgage instrument ([Form 55](#)) shall be recorded as a second mortgage lien. No assignment of the second mortgage is required, as it is closed in the name of PHFA.
4. The original second mortgage instrument should be submitted in the final document file. If PHFA does not receive this recorded Mortgage within 60 days from settlement, a request for the document will be sent to your office.
5. The homeowner's insurance should list, "Pennsylvania Housing Finance Agency, its Successor and/or Assigns", as first **AND** second mortgagee. Also, the insurance coverage must be in an amount sufficient to cover both loans.
6. Schedule B II of the Title Policy should list The Pennsylvania Housing Finance Agency as second mortgagee.