

IHCDA HOME Homebuyer Program Application Underwriting Criteria Session 2

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IHCDA's Mission and Vision

Our Mission

To provide housing opportunities, promote self-sufficiency, and strengthen communities.

Our Vision

An Indiana with a sustainable quality of life for all Hoosiers in the community of their choice.



Agenda

- What are the subsidies?
- Resale and Recapture – Abridged
- Development Uses
- Buyer Purchasing Power
- Development Sources
- Breaking Down the Commitment Proforma

What are the HOME Homebuyer Subsidies?

Three Subsidies

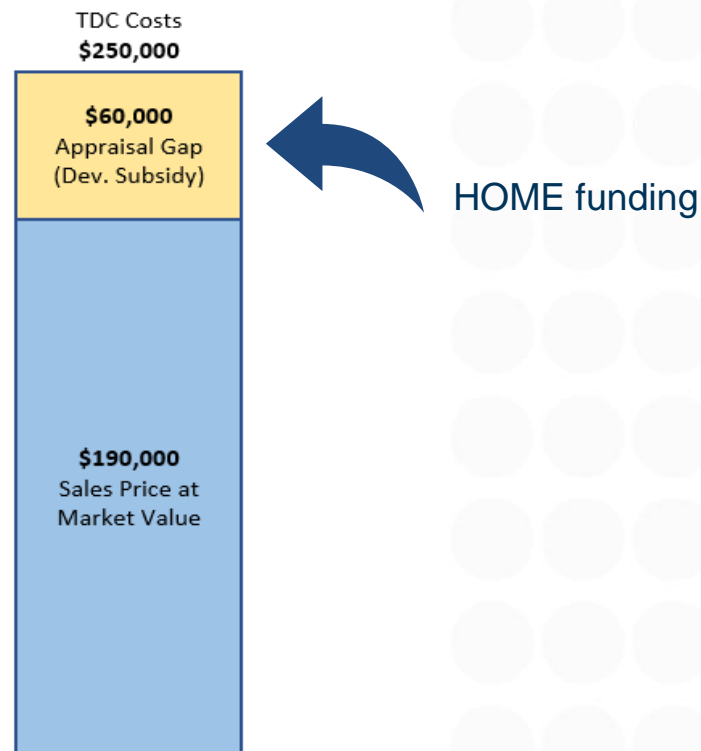
1. Developer Subsidy
2. Buyer Subsidy
3. Interim Construction Financing

Developer Subsidy

- Developer subsidy is the difference between Total Development Cost and Market Value
- This is called the “Appraisal Gap”
- HOME can be used as a grant from IHCDA to the Developer to cover the difference when $TDC > \text{Market Value}$; no expectation from IHCDA of repayment (washed away)
- Cost over value may be driven by:
 - Failed/Distressed market
 - Inefficient scale of development
 - Cost of to ensure federal compliance

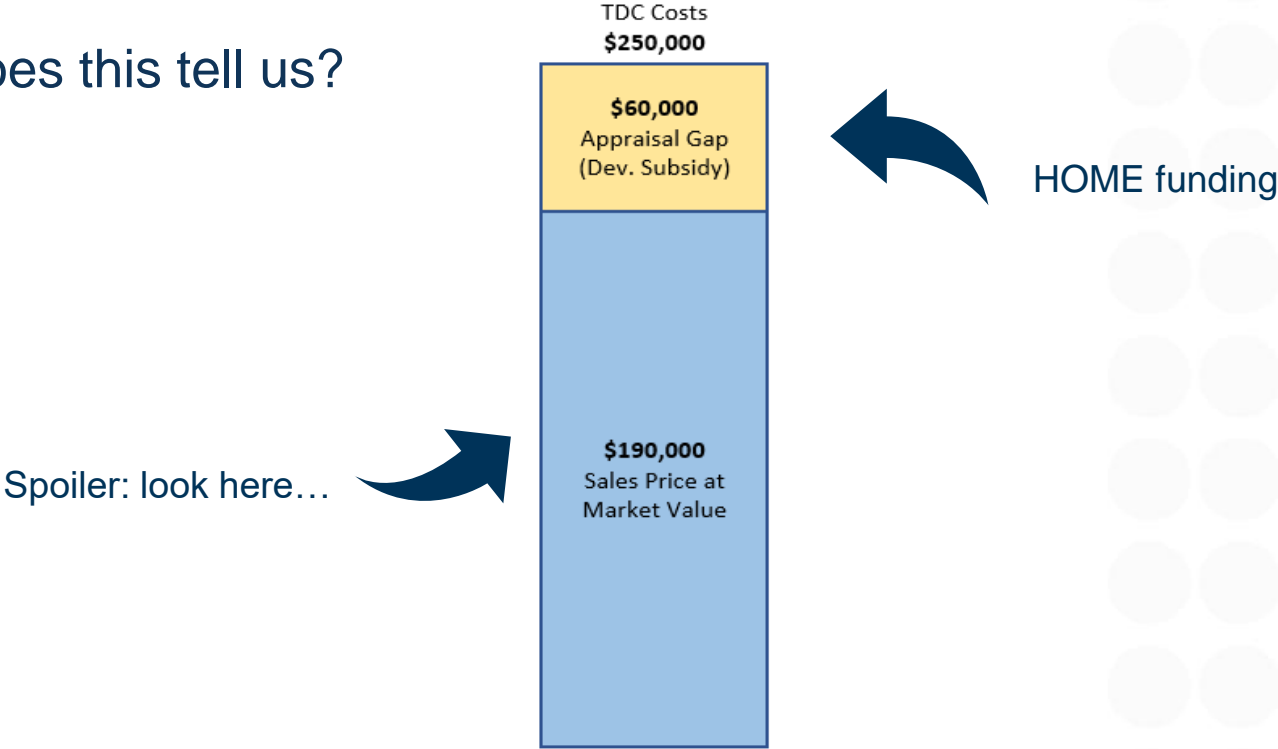
Developer Subsidy Example

- Cost to develop: \$250,000
- Appraised value of completed unit: \$190,000
- Developer subsidy: \$60,000



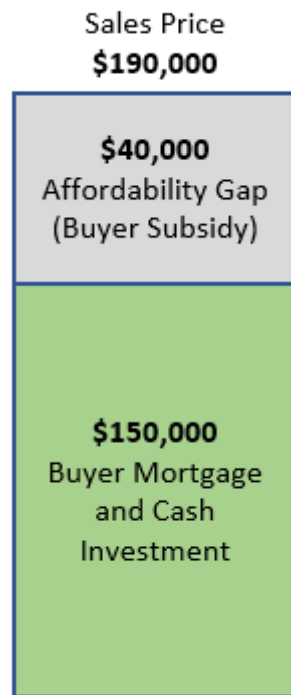
However... we aren't done yet.

- What else does this tell us?



Buyer Subsidy

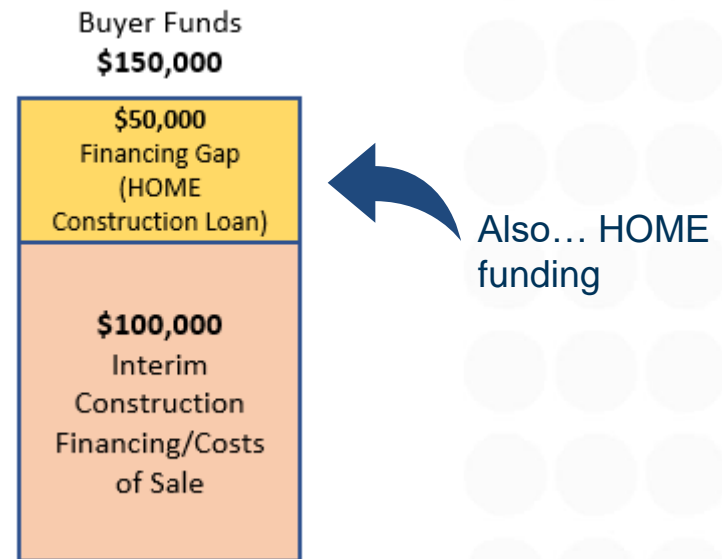
- Called the “Affordability Gap”
- HOME provided to the buyer as a forgivable loan, including down payment or closing costs
 - While eligible, want to generally avoid a reduction in sales price below market value



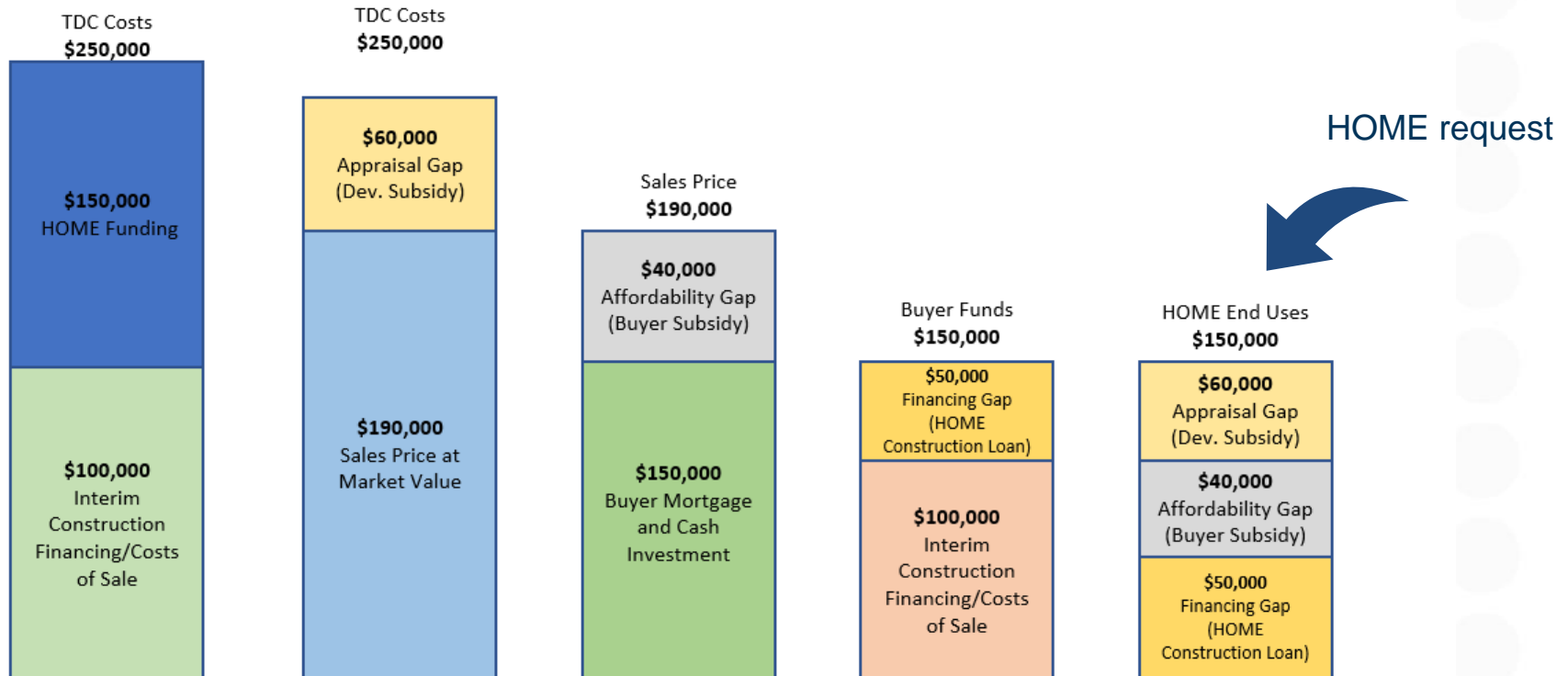
Also... HOME funding

Interim Construction Financing

- 0% Loan from IHCDA to Developer to cover capital cost gaps for homebuyer projects
- Used when the developer does not have enough sources to cover the project
- Required under regulations to be repaid to IHCDA – this is not a permanent contribution to the housing, unlike Developer Subsidy
 - EXCEPTION: CHDOs! More on this later!



What does this mean?



Recapture and Resale – Abridged Version

Period of Affordability

- Period of Affordability (POA) is the required length of time the Lien and Restrictive Covenant (LRCA) is on the property.
- Type of lien, and length of time of the LRCA is based on if there is a Buyer Subsidy needed for the homebuyer.
- Different from HOME Rental in which POA is based on construction type.

Period of Affordability

- Subsidy of under \$15,000 – Five years
- Subsidy of \$15,000-\$40,000 – Ten Years
- Subsidy of \$40k or higher – 15 Years

Recapture

- “Sell to anyone, for any price but pay back the subsidy”
- To use recapture, there must be direct assistance to the buyer – i.e. **“Buyer Subsidy”**
- POA is then based on Buyer Subsidy only
- Generally POA length is between 5-15 years
- More on Recapture requirements in Sessions 4 and 5!

Resale

- Used when there is no Buyer Subsidy – only **Developer Subsidy** and/or **Interim Construction Financing**
- POA based on TOTAL HOME award for unit
- POA length may be longer than just POA under Recapture
- Amount under LRCA will be higher
- More on Resale requirements in Sessions 4 and 5!

Breaking Down the Pro-Forma

Pro-Forma

- Two Pro-Forma worksheets:
 - Commitment – due with Application
 - Closing – due at least 3 weeks prior to closing
- Three Main sections:
 - Development Uses
 - Buyer Purchasing Power
 - Development Sources
- Pro-forma must be completed **by unit**
- **No such thing as a generic proforma**

Development Costs and Budget

Sources or Uses first?

- Development Costs come first
 - Be realistic and be complete
- Construction cost estimates must be included in application and reflected in Development Budget
- Include costs to develop AND sell units

Development Budget		
Activity	Total Cost	HOME Request
Predevelopment & Due Diligence (Soft costs)		
Appraisal(s)		
Architectal & Engineering		
Asbestos & Lead Based Paint Testing		
Phase I Env./Env. Transaction Screen/ERR		
Survey		
Building, Demo Permits and Impact Fees		
Cost Estimates, Plans, Specs & Work Write-ups		
Recording Fees		
Title Search		
Other:		
Total Predevelopment:	\$0	\$0
Professional Services (Soft costs)		
Legal & Accounting		
Marketing/Advertising		
Consultant Fees		
Other Professional Services		
Total Professional Fees:	\$0	\$0
Client Services (Soft costs)		
Client in-take/Income Verification		
Credit Reports		
Housing Counseling		
Total Client Services	0	\$0
Carrying & Financing Costs (Soft costs)		

Types of Uses

- Budget should include total costs for:
 - Pre-development and Due Diligence
 - Appraisals
 - Architectural and Engineering Fees
 - Recording Fees
 - If rehab – cost of Lead Inspection/Asbestos testing
 - Professional Services
 - Legal & Accounting
 - Client Services
 - Housing Counseling
 - Income Verification
 - Carrying & Financing costs
 - Title Insurance for construction loans
 - Builder's Risk/Liability insurance

Types of Uses

- Budget should include total costs for:
 - Acquisition
 - Land and Building
 - Closing Costs at Acquisition
 - NOTE: Remember that land value is based either on Purchase Agreement, “As-Is” Appraisal or Comparative Market Analysis (subject to IHCDCA approval).
 - Hard Construction Costs
 - Residential Structures
 - Free-standing accessory structures – NOTE: not HOME eligible
 - Appliances
 - Contractor Contingency
 - 5-7.5% must be budgeted for new construction projects
 - 7.5-10% must be budgeted for rehabilitation
 - Developer Fee – cannot exceed 15%
 - Final fee usually paid out of closing proceeds.
 - Seller’s Closing Costs – Not HOME Eligible

Other Uses Considerations

- On-site infrastructure is eligible as a site improvement
 - Underground utilities
 - Connection to public lines
- Off-site infrastructure is NOT HOME-Eligible
 - Extending public services to site, like sewer
- Units must meet HOME Property Standards
 - Rehab:
 - Useful life (5 years) – this is MINIMUM. If in doubt, replace it!
 - Lead Based Paint if pre-1978
 - Reasonable Accommodations
 - Energy Efficiency
 - Remember commitments of Universal Design, Green Building and Design Features

Cost Standards

- 2 CFR 200 Cost Principles apply; costs must be:
 - Reasonable, necessary, allocable and documentable
- **Must document all uses**
- Every project is unique – build your cost estimates from scratch
- Do not overlook, ignore or understate costs
- Budget conservatively
 - Don't use lowest end of cost ranges

Buyer Analysis

Preliminary Buyer

- Commitment – Based on unknown, “lowest achievable” buyer profiles
- Closing – Based on known buyer, individual analysis, reconciles to the closing statement
- Some may have buyers lined up but circumstances can change.
- Commitment section will estimate the amount of proposed buyer subsidy
- Must underwrite each unit and each buyer separately!

Determining Cash Needs

- Projected appraised value or Sales Price entered at top of pro-forma
- Add in the estimated closing costs or any pre-paid funds
- Allowable LTV: IHCDCA recommends an LTV no higher an 95%; LTV can be no lower than 80%.
 - Enter as percentage
- This will calculate the maximum projected mortgage based on the value, and the cash needed (DPA/closing cost assistance/buyer cash) for the projected closing.

Buyer Analysis			
If Unassisted			
Appraised Value/Sales Price	190,000		
Closing Costs/Prepays	5,000	2.63%	sales price
Total Cash Needed (if unassisted)	195,000		
Allowable LTV	80.00%		
Max Mortgage Based on Value	152,000		
Cash Needs (if unassisted)	43,000		

Principle, PMI and Mortgage

- Estimated interest rate
 - HFH will have 0%
- Mortgage Insurance Premium Rate: Enter projected PMI
 - Will not apply to HFH
 - Want to see if we can limit this
- Enter projected Mortgage term – minimum is 20; cannot exceed 30-year term.
- Pro-forma will calculate projected mortgage payment

Interest Rate	6.500%
Mortgage Ins. Premium Rate (MIP/PMI)	0.000%
Term (years)	30
Principal, Interest, & MIP Payment	960.74

Understanding the Front-End Ratio

- Front-End Ratio indicates what portion of an individual's income is allocated to mortgage payments
- For these buyers, will also include taxes, insurance, utilities
- Does NOT include other non-housing debt.
- IHCD uses 29% Front-End Ratio
 - We can accept waivers to this with your application.

Taxes (Annual)	2,000	1.05%	of value
Insurance (Annual)	1,500		
Utilities (Monthly)	300		
Associate Fees (Annual)			
Total Escrow (Monthly)	591.67		
Total Monthly Payment	1,552.41		
Target Front End Housing Ratio	29.00%		

Buyer Profile

- You will identify the 50% AMI limit 4-person household for your county.
 - See [RED Notice 24-25](#)
 - This does not limit you to that AMI, but shows you the suggested buyers' AMI limits to ensure affordability for that buyer.
- Buyer must put in minimum of \$250 toward purchase – okay to go higher.
- Max Total Buyer Assistance is amount needed after projected buyer cash. This is projected Buyer subsidy for unit.
- Pro-forma will identify PITI.

Min. Buyer Profile (unassisted)			
Min. Income (unassisted)	64,238		
Buyer Cash Investment (unassisted)	43,000		
Min. Buyer Profile (with assistance)			
Max. Total Buyer Assistance Available	40,000		
Downpayment/Closing Costs	43,000	2.63%	sales price
Projected Buyer Cash	5,000		
Assistance Needed for DPA/Closing	38,000		
Add'l Mortgage Write-Down Available	2,000	78.95%	effective LTV
Min. Mortgage Needed	150,000		
PITI (and MIP/PMI) after write-down	1,539.77		
Min. Income Needed (at max assistance)	63,715	41,450	
50% AMI Limit for 4-person household			
Approx. Min. AMI for 1-person HH	110%		
Approx. Min. AMI for 2-person HH	96%		
Approx. Min. AMI for 3-person HH	85%		
Approx. Min. AMI for 4-person HH	77%		
Approx. Min. AMI for 5-person HH	71%		
Approx. Min. AMI for 6-person HH	66%		

Buyer Profile

- Buyer Subsidy:
 - In 2023 policy, will allow buyer subsidy of up to \$60k for households at or below 50% AMI
 - 50-80% AMI cannot exceed \$50,000
 - LTV may not be lower than 80%
 - Higher Buyer Subsidy will mean longer POA – homebuyer education is critical
 - HFH – Right of First Refusal not allowed during POA
- This is a tool to look at who should be in your buyer’s pool.

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Approx. Min. AMI for 5-person HH	71%		
Approx. Min. AMI for 6-person HH	66%		

Development Sources

Circling back on the subsidies

- Remember the three subsidies:
 - Development Subsidy
 - Homebuyer Subsidy
 - Interim Financing
- Each of these will be calculated under the “Development Sources” section of the pro-forma

Total Development Costs

- Pro-Forma will pull TDC from Development Budget
- This example presumes no developer fee.

Development Sources	
Total Development Costs	\$250,000
Costs Paid from Sales Proceeds	\$34,000
Dev. Period Sources Needed	\$216,000

Development Subsidy Sources

- Pro-Forma will pull Gross Developer Subsidy.
- Other grants to be applied to the Developer subsidy include all those that are donated to the site. This can include:
 - Donations/discounts (including volunteer labor)
 - Waived Fees
 - Philanthropic Support
 - Public Funding
 - Cash donations could count as equity and not be counted as part of Developer Subsidy

Gross Development Subsidy	\$60,000
Other grants (applied to Dev. Subsidy)	0
HOME for Development Subsidy	\$60,000
"Prefunded" Buyer Assistance (HOME)	\$40,000

Interim Development Financing

- Interim Construction Financing is TDC – (Development Subsidy + Buyer Subsidy + Costs paid from Sales proceeds)
- Think of this financing as proceeds that must be paid back.
- Habitat mortgage could be recorded as equity.
- Revolving cash donations that would go back to NFP can be noted as a loan.

Interim Construction Financing Needed	\$116,000
Equity (repayable from proceeds)	36,000
Construction Loan (repayable from proceeds)	30,000
Other (repayable from proceeds) <i>describe</i>	0
Subtotal of other interim sources	66,000
Remaining Financing Gap/Public Construction	\$50,000

“How much HOME do I need?”

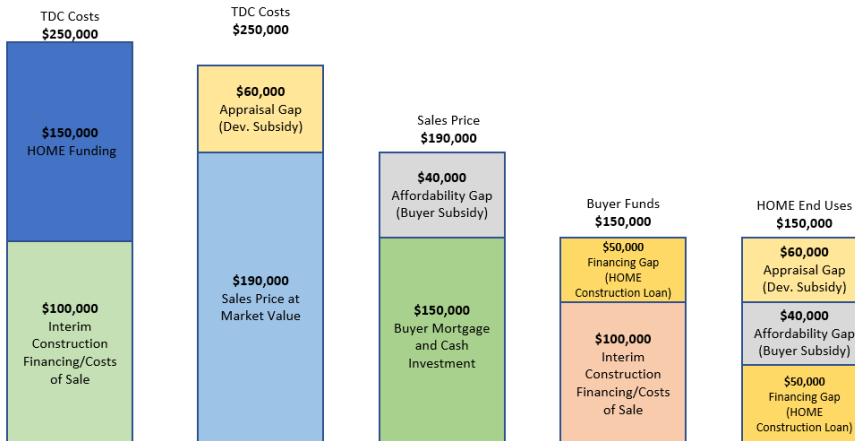
Putting it all together

Total HOME Investment Needed

- Development Subsidy of \$60,000
 - Washed by IHCDA
- Buyer Subsidy of \$40,000
 - Subject to Recapture and will have LRCA for 10 years
- Interim Financing of \$50,000
 - Repayable to IHCDA within 30 days of closing to IHCDA unless CHDO
- Total HOME award of \$150,000

Total HOME Investment Needed	
Development Subsidy (permanent)	\$60,000
"Prefunded" Buyer Assistance (permanent)	\$40,000
Add'l Construction Period Financing (interim)	\$50,000
Total Public Investment	\$150,000

Remember me?



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Total HOME Investment Needed	
Development Subsidy (permanent)	\$60,000
"Prefunded" Buyer Assistance (permanent)	\$40,000
Add'l Construction Period Financing (interim)	\$50,000
Total Public Investment	\$150,000

HOME Request

- \$150,000 would go under “HOME request” column under Development Budget
- Will assist IHCDA staff with setting up contract if project is approved by board
- Budget will go into contract and IHCDA Online

HOME Request

- Remember sources = uses
- Please note that HOME request is projection of actual costs and buyers.
- Closing Pro-forma will reassess proposed sales and final development numbers.
 - Keep documentation of change of development costs, and other sources

Upcoming Training –

**Monday, November 4th
9:30am**

Managing a HOME Homebuyer Project

- IHEDA Contract Process
- Inspection Policy
- Retainage Policy
- Extension Requests
- HOME timelines and deadlines
 - Expenditure deadline
 - De-obligation
 - 9-month timeline

ANY QUESTIONS?

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