ESCAMBIA COUNTY CDBG REHABILITATION PROGRAM
Program Review Update 10/10/17

NO CHANGE:

*Income Levels: Set by HUD.
*Property Insurance: Recommend no change in requirement for insurance, which is currently not required (unless in a flood zone, and property would be required to have flood insurance per HUD regulations)

DISCUSSION 7/11/17: AHAC thinks it's important to have insurance. There are still issues with monitoring of these. What will County do to those that do not maintain insurance?

CHANGES TO REVIEW:

A. Ownership—Current policy: Applicant must be Owner occupant with fee simple title and homestead exemption

RECOMMENDATION 1: Clarify policies related to permission of Life Estate applicants (this is currently permitted, but not expressly in writing)

DISCUSSION: AHAC discussed making sure the applicant has owned the property for some minimum amount of time before applying to deter applicants with distressed properties getting on the wait list immediately after buying a property.

RECOMMENDATION 2: Applicant must own property for [~~12~~ SIX (6) MONTHS] prior to making application.

DISCUSSION 7/11/17: Recommended SIX months.

B. Lead Based Paint (LBP) Program—Current policy offers Lead based paint remediation as a 0% interest, 5 year mortgage, no monthly payments. Client must participate if LBP is found and will also have to participate in the rehabilitation program. Client is also required to allow us to come back for up to two years after the remediation to reinspect the home to make sure the LBP is still intact.

DISCUSSION: LBP remediation does make the home safer, but does not necessarily improve the value of the property. Should this be offered as a grant instead of a lien? Or perhaps a shorter lien/mortgage term? Average LBP remediation cost is $10,000 or less.

RECOMMENDATION 3: Grant (no encumbrance) vs. 5 year mortgage (no change—current policy) vs. a shorter mortgage or lien (2 years)

DISCUSSION 7/11/17: Recommend 2 YEAR LIEN

C. **Property Location—Current Policy: Unincorporated Escambia County**

RECOMMENDATION 4: Clarify policies to allow other areas of Escambia County if approved by the BCC (in case of disaster, etc)

D. **Mortgage(s)—Current policy only requires mortgage to be current. No other guidelines.**

DISCUSSSION: Some applicants have a history of not keeping their first and/or second mortgage current and get caught up only to make application and get approved, but then do not maintain current payments.

RECOMMENDATION 5: Require any outside mortgages not to have been in arrears for a minimum of [SIX] months

DISCUSSION: County rehab loans will be in a subordinate position to prior mortgages or liens, and could run up to $49,999. We may provide up to two mortgages—one for the rehab and one for lead based paint (LBP) remediation if LBP is found. Should applicants be considered that have a second mortgage? Often a second mortgage is against the property where there seems to be no indication that the applicant used funds to improve the property. Note that applicant might have a first mortgage with a bank, second mortgage with the City/County under the SHIP or HOME program for down payment/closing costs. Other local governments in Florida are mixed with only taking second position and with some taking 3rd position.

RECOMMENDATION 6: Continue to permit first mortgages or liens. *Prohibit second mortgage OR allow second mortgage as long as it conforms to CLTV below*

DISCUSSION: Applicants with first/second mortgages are applying for assistance where the value of their first or second mortgage EXCEEDS the value of their property (using Chris Jones' property value). Debt exceeding the value of the property jeopardizes the County mortgage and may encumber the property owner from being able to sell the property in the short term. It is understood that applicants are applying for assistance to improve the property to theoretically improve those values. However, with the CDBG program there may a mortgage of up to $49,999 and another lien/mortgage. County staff is very concerned with a high CLTV. Staff would either need to get actual appraisals of the property (increased program costs) or make some concession to the ESCPA valuation, which is generally a little lower than the actual appraised value.

Recent scenario: Homeowner applied for program who purchased her home in 2006 for the low $100's; the amount due on the mortgage was $64,652.91. The ESCPA value of the home was $51,263. The home needed structural repairs, plumbing, rewire, windows, etc. for approx. $47,400. The loan to value (LTV) ratio is 126.1%. With our program, the combined loan to value

(CLTV) was 218.58%. This valuation does not include the LBP remediation of approximately $4500 that was also needed.

Other local governments for comparison:

POMPANO BEACH:

Mortgages for Housing Rehabilitation Program funded by the Community Development Block Grant (CDBG); State Initiative Housing Program (SHIP) or Home Investment Partnership Program (HOME Program) should be first, second or third position, to insure that funds can be recaptured. The City will utilize the http://broward.org/records.www.bcpa.net website to conduct a title search.

If at the time of application, a homeowner has two (2) existing mortgages and requests a third (3rd) via their participation in the Housing Rehabilitation Program, an analysis of equity will be conducted. The value of the property will be estimated by multiplying the City's Tax Assessor's assessed value by the equalization ratio. The resulting figure will be compared with level of principal that has been paid by the homeowner. The sum of the loans/mortgages/liens will not exceed 95% of the estimated value of the property.

MIAMI DADE:

d. **Any rehabilitation work performed will be evaluated with a combined loan-to-value (CLTV) of 115% and will be processed as a deferred payment loan.**

h. The maximum Combined Loan-to-Value (CLTV) that the County will allow on an existing residence is 115%. **The 115% CLTV maximum may be increased to 120% by the Director of the Affordable Housing Services Department if the median property values of all properties in the area have dropped by more than 20% during the immediate previous two year period as reported by Zillow.com.** Furthermore, in no instance shall the maximum HOME investment provided to a housing unit exceed the HOME maximum subsidy limit.

CITY OF MIAMI GARDENS:

Combined Loan to Value

This is the sum of all existing loans and proposed City loan secured by the property as a percentage of the value of the property. The value of the property is the market value as determined above.

The following are the maximum Combined Loan to Value Ratios (CLTV) per Housing Program:

*Housing Rehabilitation 300%
*Replacement Homes 125%
*Homeownership Assistance 105%
*Subordination Requests 150%

Loans with Combined Loan-to-Value Ratios (CLTV) above the maximum can only be originated with an approved request of exception.

BRADENTON:

Debt against a property should not exceed the value of the property when the rehab is complete…. Depending on the risk a program is willing to take, consideration of higher debt to value ratios in the case of owner occupied applicants is often needed. Reasons could be that the property is in an area where values are depressed far below replacement and rehab costs, or that the family will continue to live in an unsafe home if the loan is not made. For these and other reasons, many programs routinely allow debt to exceed value by a some predetermined amount or percentage if the owner has lived in the home two years or more. Others set criteria for special case exceptions to be made by the Community Relations Advisory Board. Some make provision for small grants in the amount exceeding equity. If the Program is working with another lender, that lender's requirements may be what guide maximum debt levels.

<u>DISCUSSION 7/11/17: AHAC wanted more local examples.</u>

RECOMMENDATION 7: Combined Loan to Value Ratio of [xxx%]

DISCUSSION: Current policy is silent on BANKRUPTCY, although practice was not to consider unless discharged. Sample policies from other local governments:

***Bankruptcy and Other Judgments.** A single bankruptcy, creditor's settlement, or other major judgment within the past 5-7 years typically would make a borrower ineligible for a rehab loan. Exceptions may be considered when the contributing causes of the borrower's past difficulties were due to circumstances beyond their control, as long as the borrower has succeeded in reestablishing a satisfactory credit standing for at least two years. If an applicant with prior bankruptcies or other judgments is approved, a letter must be included in the loan file to explain the reasons for the exception. In cases of Chapter 13, "Wage Earner Bankruptcies", the Courts do not allow the party paying the "wage earner" payments to incur any further debts without prior written consent from the Trustee. If the "wage earner" bankruptcy has been paid in full, a detailed record of payment history should be obtained to show consistency in payments.

*The County may deny a loan request if the applicant has any bankruptcies in the past seven years or has filed bankruptcy prior to loan funding and recordation of the deed of trust.

*Chapter 7 Bankruptcy – two years must have elapsed since the date of the discharged bankruptcy. The applicant must have re-established credit or chosen not to incur new obligations. Provide a written explanation that led to the bankruptcy including copies of the discharge with all pages and schedules. All bankruptcies will be reviewed and a decision will be made on a case by-case basis.

*If a homeowner, whose name appears on the first mortgage loan and note, has had a recent bankruptcy or currently has substantial debt and/or poor credit history, the homeowner may be denied rehabilitation assistance. Applicants must be at least 2 years past the Discharge Date of any bankruptcy, if applicable.

RECOMMENDATION 8 <u>(after 7/11/17 discussion): If a homeowner, whose name appears on the first mortgage loan and note, has had a recent bankruptcy or currently has substantial debt and/or poor credit history, the homeowner may be denied rehabilitation assistance. Applicants must be at least 2 years</u>

past the Discharge Date of any bankruptcy, if applicable. Applicant may not have more than 2 bankruptcies in their history.

E. REAPPLICATION to PROGRAM: Existing policy—applicant cannot reapply to program if wait list exists for program

DISCUSSION: Currently if applicant cannot apply for CDBG, they would be referred to SHIP

RECOMMENDATION 9: Staff recommends no changes

F. MAXIMUM ASSETS: Existing policy does not limit.

DISCUSSION: We have had applicants with large retirement assets apply (over $100K), large amounts of liquid assets, and/or own other properties. Should assets be limited?

Other programs:

***Maximum Assets** - To be eligible for a loan an owner occupant may not have assets in excess of $25,000. When the asset limit is applied to retired homeowners or those over 62 years of age, or with a disability that limits their capacity to produce an income, consideration will be given to necessary income producing assets, or assets acquired as a hedge against inflation. There is no asset limit for rental property owners.

****Assets**
If the applicant's current assets total in excess of $25,000 that applicant is determined to have substantial resources and does not qualify for the Housing Rehabilitation Program loan.
Assets include:
• Funds in checking and savings accounts.
• Interest or dividends earned from IRAs, CDs, stocks, bonds, mutual funds, or pension accounts.
• Assets also include the value of real estate (other than primary residence).

Assets do not include:
• pre-tax payroll deductions,
• deferred compensation accounts,
• 401Ks,
• health or dependent care allowances,
• two vehicles,
• the subject property, and
• furnishings and fixtures.

If assets are $25,000 or above, income on all assets (actual or imputed per worksheet) must be included to determine income eligibility. However, earnings from retirement accounts do not need be included unless the funds are being removed from the account.

Homeowner households cannot have liquid assets exceeding $20,000 except for amounts invested in financial instruments exclusively designated as a retirement account such as an IRA or 401K. Additionally, the homeowner cannot own any other real estate or be a party to a mortgage that is not related to the primary residence.

RECOMMENDATION <u>(7/11/17 discussion): NO CHANGE</u>

G. PROGRAM TERMS FOR REHAB (not the LBP):

DISCUSSION: Current terms are complicated to administer, with up to two loans, 0-5% interest, 5-20 years, some deferred payment, some monthly payments. Different terms for elderly clients.

% AMI	HOH Age	% Deferred Payment Loan [0%/5 year]	% Deferred Payment Loan [0%/20 year]	% Low Interest Loan [5%/5-10 years]
<40%	62+	100%	-	-
	<61	-	100%	-
41-50%	62+	80%	20%	-
	<61	-	80%	20%
51-60%	62+	70%	30%	-
	<61	-	70%	30%
61-70%	62+	60%	40%	
	<61		60%	40%
71-80%	62+	50%	50%	
	<61		50%	50%

Some examples:

***Types and Terms of Financing (Rehab Loans) –this County funds up to $100K in repairs**
The County offers two types of loans for owner occupied residential properties, Amortized and Deferred. The interest rate is 3% and the maximum loan term is 30 years. The type of loan offered to an applicant is dependent upon the total amount of the applicant's fixed household expenses and the requirements of the funding source used for the loan. These expenses include any current mortgage payments, property taxes, hazard insurance, and utility expenses. If these expenses (front end ratio) exceed thirty percent (30%) of the applicant's total income, then the qualified applicant will be eligible for a deferred loan. The County Housing loan Committee does have discretion to approve a deferred loan to those applicants whose front end ratios are less than 30%.

Amortized Loan
An amortized loan is a loan that requires monthly payments and those payments are divided out equally over the life of the loan. The amortized loan is three percent (3%) interest. The maximum loan term is 30 years depending on the funding source. If the borrower's housing costs mentioned above are less than thirty percent (30%) of the household's total income, the borrower will be eligible for an amortized loan. There are no prepayment penalties on this type of loan. Once the loan has been made, the County will not

again review the borrower's income and housing costs unless the borrower's income decreases or their housing costs increase and the borrower requests a review in order to reduce or eliminate payments. These loans are secured by a Deed of Trust on the property and may be subordinated to other encumbrances against the property with County approval.

Deferred Loan

To be qualified for a deferred loan, indebtedness on the property cannot exceed ninety percent (90%) of the appraised value of the property including the after rehabilitation value. Qualified household expenses must exceed thirty percent (30%) of total household income in order to be eligible for a deferred loan, or in some cases the funding source may require all payments to be deferred for a specified period of time. No loan payments of principal or interest are required during the period of deferral unless there is a default of the loan. This loan is secured by a Deed of Trust on the property and may be subordinated to other encumbrances against the property. Borrowers are encouraged to make payments on these loans whenever possible to offset the increase in the loan amount due to accruing interest.

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The length of time the homeowner must live in their dwelling to fulfill the affordability requirements will vary in length and shall correspond to the amount of assistance received. The time lengths required are as follows:

Assistance Received:	Affordability Periods:
<$15,000	5 years
$15,000 up to $40,000	10 years
>$40,000	15 years

*** Bradenton (max $30K assistance)**

Minimum Payments / CDBG Loans - Payments shall be required when the applicant is deemed able to pay at least $25 per month. If an applicant is unable to make the minimum payment, the entire loan amount may be deferred. The applicant's ability to make payments shall be reviewed and a revised payment amount set (based on current income, debt and rental operating cost information) upon the request of either party to the loan.

Owner Occupied Properties - Owner occupants must pay at least 20% and no more than 30% of their gross monthly income for principal, interest, taxes, homeowners insurance and allowance for utilities plus the CDBG loan payment, regardless of the size of the loan. The payment amount between 20% and 30% shall be limited by an overall debt ratio maximum of 43% of gross income.

Terms: The interest rate is 0% for both installment and deferred payment loans. Installment loans require a minimum $40 per month payment and have a maximum term of 20 years. Deferred payment loans are available to very low-income families.

*****FORGIVABLE LOANS**

Forgivable loans will cover 50% of the rehab costs. A forgivable loan is non-interest-bearing loan secured by a 5-10 year lien. (When the contract amount is $15,000 or less, the forgivable loan will be for a five-year period and will be forgiven at 20% per year. If the contract amount is over $15,000, the forgivable loan will be for ten years and will be forgiven at 10% per year.) At the end of the loan period, the lien will be released. A qualifying immediate family member who has inherited the property may assume the forgivable loan if they agree to the same terms and conditions as the original owner. The unforgiven balance of the loan shall become due and payable upon the sale, exchange, re-financing to get cash out, or transfer of the property to a nonqualifying owner.

*****PERMANENT LOANS**

Permanent loans are secured by a lien, are non-interest bearing, and become due and payable when the owner sells the home or changes the ownership to someone other than a qualifying member of the family. Permanent loans must be paid if the subordination agreement includes taking cash out from the equity of the home. (In hardship cases where there is insufficient equity on the property to cover the loan, the Rehab Committee may grant an exception to this requirement.