EQUAL HOUSING OPPORTUNITY

Homebuyer Assistance/Exterior Façade Program

CITY OF COVINGTON
TARGETED REDEVELOPMENT AREAS
2011-2012 PROGRAM GUIDELINES

I. PROGRAM SUMMARY

The Homebuyer Assistance/Exterior Façade Program is administered by the City of Covington's Community Development Department. The purpose of the program is to increase the number of homeowners in the two City of Covington targeted redevelopment areas: the Central Core and Latonia. Under this program, households which meet income, credit, and other requirements may obtain deferred payment, zero interest loans to assist with purchasing an owner occupied home. The loans can be used to cover the lender required down payment and usual, reasonable and customary closing costs. Borrowers may also be eligible for additional principal reduction to make the purchase affordable. The loan will become a grant if the owner occupies the home as their principal residence for 15 years from the date of purchase.

A façade grant will be made available to address exterior code violations. The facade grant may be used to repair or replace exterior components visible from the public right of way. Examples of eligible repairs include: roof repair/replacement, gutter repair/replacement, repair/painting of exterior walls and trim, porch posts and railings, handrails, steps and walkways.

II. PROCEDURES

All applicants must present a fully executed purchase contract, a City Homebuyer Assistance Program loan application, income information to determine eligibility, and required supporting documentation. Applications will be processed on a first come, first served basis as funding permits.

III. REQUIREMENTS

1. Borrower Qualifications:

a. **Income:** To qualify for the Homebuyer Assistance Program, the borrower must verify to the Housing Department that he/she meets the following income qualifications. The borrower's annual family income must not exceed income limits as determined by the U.S. Department of Housing and Urban Development.

The City uses the Part 5 Income Definition. Income inclusions and exclusions and asset inclusions and exclusions are attached as Attachments 1, 2 and 3.

U.S. Department of Housing and Urban Development (HUD) income limits for Covington, adjusted for household size, effective 5/31/2011, are listed below. These limits are effective until revised by HUD.

2011 HUD Income Guidelines

Persons in Household	Maximum Income
1	$39,450
2	$45,050
3	$50,700
4	$56,300
5	$60,850
6	$65,350
7	$69,850
8	$74,350

b. Credit: Credit history and documentation which indicates substantial evidence of borrower's willingness to pay will be reviewed. Reports from a Credit Bureau will be obtained for all borrowers. A minimum credit score of **620** will be required. For borrowers with credit scores below 620, additional factors may be taken into consideration on a case-by-case basis. For borrowers with no credit score, a non-traditional credit history may be considered.

c. Education: All applicants must participate in a City-approved homebuyer education course and must present a certificate of completion before program benefits are paid.

d. Loan Underwriting: The City will use debt ratios of 31% and 43% to ensure that the borrower's income is sufficient to cover their mortgage and other monthly obligations. These are the current standard FHA ratios. Exceptions to these ratios will only be considered on a case-by-case basis. The interest rate on the first mortgage cannot be higher than 2.5% above the average 30 year conventional loan rate as published by Freddie Mac in the Weekly Primary Mortgage Market Survey. To be eligible for the City funding, borrowers may not use mortgage financing involving balloon payment loans, adjustable rate mortgages, or other loans that are determined to be subprime.

e. Good Standing: Pursuant to Commissioners' Ordinance O-11-06, applicants and affiliated persons and/or entities for this program must not have made or filed pending adverse claims against the City in the form of settlement demands and/or lawsuits; nor shall they be delinquent in their obligations to pay loans, fines, liens, or other obligations owed to the City of Covington ("the City"). No person or entity will be denied federal public or assisted housing agency benefits or programs administered by the City as a result of this policy.

2. **Property Qualifications**:

   a. **Only owner-occupied** or vacant dwellings having one to two units are eligible. Two unit buildings must have been originally constructed for two units to be eligible. Homes currently occupied by tenants must be evaluated on a case-by-case basis to determine if the property is eligible for City assistance.

   b. **Targeted Redevelopment Areas:** All properties must be located in one of the City of Covington targeted redevelopment areas. The targeted areas are: 1) the Central Core and 2) all of the area known as Latonia. See attached maps.

   c. **Principal Residence:** Participants must occupy the property as their permanent principal place of residence within 60 days from the date of purchase (except in the case of units currently under construction). The home must be, and remain for the term of the loan agreement, the principal residence of the borrower.

   d. **Ownership Status:** The borrower must have fee simple title to the property. Homes purchased on private contracts usually do not meet this requirement.

   e. **Appraisal**: The appraised value after repairs must not exceed 95% of the Single Family Mortgage Limits under 203(b) of the National Housing Act, as adjusted periodically. This is to be verified by a certified appraisal. For 2011, appraised value after rehabilitation is $243,675.

   f. **Property Standards:** All properties must meet the minimum housing standards of the International Property Maintenance Code prior to purchase. All properties will be inspected by the City to ensure compliance with these standards. If exterior code violations are present the City may provide a façade grant to address the exterior code violations. Properties with code violations that cannot be addressed by the façade grant may be eligible for the City's Purchase/Rehab Program.

   g. **Homes built prior to 1978** will be inspected in order to detect the presence of defective or deteriorated paint surfaces. This inspection and any required paint stabilization will be governed by The Department of Housing and Urban Development's Lead Safe Housing Rule.

   h. **Zoning**: The home must be in compliance with applicable zoning regulations.

   i. **Manufactured Housing**: In order to qualify for assistance, manufactured housing must be situated on a permanent foundation and be connected to permanent utility hookups. If produced after June 15, 1976, the home must meet property standards established under 24 CFR 3280. If produced before June 15, 1976, the home must comply with applicable City of Covington Codes.

   j. **Federal Regulations:** For activities funded through the Federal HOME Program Funds, loans are subject to requirements outlined in 24 CFR Part 92.

IV. LOAN TERMS/FAÇADE GRANT

a. Standard Loan Terms:

Loan Amount:

Latonia: up to $5,000 to cover the lender required down payment and closing costs; and principal reduction as needed to bring the borrower's front-end ratio to 25%.

Central Core: up to $10,000 to cover the lender required down payment and closing costs; and principal reduction as needed to bring the borrower's front-end ratio to 20%.

Interest Rate/Loan Term: 0%, 15 years

Monthly Payment Amount: No monthly payments. Two-thirds (2/3) of the loan amount will be forgiven if the owner(s) occupy the home as their principal residence for 10 years from the date of purchase. The final one-third (1/3) will be forgiven pro-rata over the final five years of the loan. Any remaining loan principal will be due in full upon the sale, transfer, refinance or vacating of the property by the property owner.

Sales Price: Cannot exceed 95% of the area median as determined by the 203(b) mortgage limits for the Cincinnati-Middletown OH-KY-IN MSA as calculated periodically. For 2011, this amount is $243,675.

b. Façade Grant:

Up to $2,500 (minimum $1,000) forgivable grant to address exterior code violations visible from the public right of way. All façade work must be approved by the City of Covington regarding historic standards. All work must be performed in accordance with the Department of Housing and Urban Development's Lead Safe Housing Rule. This includes the use of RRP certified contractors and clearance testing performed by certified lead risk assessors at the completion of the façade work.

V. Conflict of Interest:

A conflict of interest exists if an applicant is an employee, agent, consultant, officer elected or appointed official to the City of Covington, and if the applicant:

- Exercises or has exercised any functions or responsibilities with respect to funds for this program, or
- Participates in the decision making process related to funds for this program, or
- Is in a position to gain inside information with regard to program activities.

If a conflict of interest exists, the applicant may not obtain assistance under this program. If there is any doubt of the conflict of interest, a written waiver may be obtained from the City of Covington.

V. SPECIAL HOUSING NEEDS

The City Commission reserves the right to waive any local program requirement for applicants who demonstrate a special housing need because of physical or mental disability or large family size. Additionally, the City Commission reserves the right to waive any local program requirements in conjunction with an activity undertaken by a Community Housing Development Organization (CHDO) or other non-profit entity.

For further information on the Homebuyer Assistance Program, call or write:

City of Covington
Community Development Department
638 Madison Avenue
Covington, KY 41011
(859) 292-2147
TDD (800) 545-1833, ext. 931

Adopted: 06/28/2011 (O/R-163-11)

Central Core Target Area

Latonia Target Area

HOME Program Definitions

1. **Applicant** shall mean the person(s) who sign(s) the City loan application.

2. **Deferred Second Mortgage Loan** shall mean a 0% interest loan by the City to the applicant that must be repaid in a lump sum upon the sale, transfer, or vacating of the property by the property owner. The loan becomes a grant if the homeowner occupies the residence for 15 years.

3. **Owner-Occupant** shall mean any person who is purchasing the property which is the subject of the deferred second mortgage loan.

4. **Income** is gross annual income of the applicant and all other people who are expected to reside in the house which shall include wages, salaries, tips, bonuses, commissions, dividends, interest and any other form of income generally considered as gross income by the IRS and reported on the Homebuyer Assistance Program application. For purposes of the Homebuyer Assistance Program, current paycheck stubs shall be used for income qualifications. Copies of most recent tax returns will be used for verification of information contained in the application, but will not be used in determining income eligibility.

5. **Income Limits**
   a. *Very low income* shall mean annual income which does not exceed 50 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 50 percent of the median for the area on the basis of HUD findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes.
   b. *Low income* shall mean annual income which does not exceed 80 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 80 percent of the median for the area on the basis of HUD findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes.

6. **Lender** shall mean any established lending institution or any organization or company whose primary purpose is lending money.

7. **Average 30 Year Conventional Loan Rate** shall mean the current average 30 year mortgage rate as published by Freddie Mac (Federal Home Loan Mortgage Corporation).

8. **Subprime Loan** shall mean a mortgage loan which carries an interest rate at least 2-1/2 points more than the average 30 year conventional loan rate. Typically, a subprime rate is offered to loan applicants who have below average credit histories.

City of Covington
HOMEBUYER ASSISTANCE PROGRAM

Attachment 1 - 24 CFR Part 5 Annual Income Inclusions

1. The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
2. The net income from the operation of a business or profession.
3. Interest, dividends, and other net income of any kind from real or personal property. Where the family has net family assets in excess of $5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD.
4. The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount (except for certain exclusions, listed in Attachment 2, number 14).
5. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay (except for certain exclusions, as listed in Attachment 2, number 3).
6. Welfare Assistance. Welfare assistance payments made under the Temporary Assistance for Needy Families (TANF) program are included in annual income:

   - Qualify as assistance under the TANF program definition at 45 CFR 260.31; and
   - Are otherwise excluded from the calculation of annual income per 24 CFR 5.609(c).

   If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:

   - the amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; ***plus***
   - the maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is reduced from the standard of need by applying a percentage, the amount calculated under 24 CFR 5.609 shall be the amount resulting from one application of the percentage.
7. Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling.
8. All regular pay, special pay, and allowances of a member of the Armed Forces (except as provided in number 8 of Income Exclusions.

HUD Guidebook HUD-1780-CPD, Technical Guide for Determining Income and Allowances for the HOME Program, Third Edition, January, 2005

Attachment 2 – 24 CFR Part 5 Annual Income Exclusions

1. Income from employment of children (including foster children) under the age of 18 years.
2. Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
3. Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses (except as provided in Attachment 1, number 5 of Income Inclusions).
4. Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of a live-in aide (as defined in 24 CFR 5.403).
6. Certain increases in income of a disabled member of qualified families residing in HOME-assisted housing or receiving HOME tenant-based rental assistance (24 CFR 5.671(a)).
7. The full amount of student financial assistance paid directly to the student or to the educational institution.
8. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
9. (a) Amounts received under training programs funded by HUD.

   (b) Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set side for use under a Plan to Attain Self-Sufficiency (PASS).

   (c) Amounts received by a participant in other publicly assisted programs that are specifically for, or in reimbursement of, out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and which are made solely to allow participation in a specific program.

   (d) Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed $200 per month) received by a resident for performing a service for the PHA or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, resident initiatives coordination, and serving as a member of the PHA's governing board. No resident may receive more than one such stipend during the same period of time.

   (e) Incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program.
10. Temporary, nonrecurring, or sporadic income (including gifts).
11. Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
12. Earnings in excess of $480 for each full-time student 18 years old or older (excluding the head of household or spouse).

13. Adoption assistance payments in excess of $480 per adopted child.
14. Deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts.
15. Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.
16. Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.
17. Amounts specifically excluded by any other Federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR 5.609(c) apply. A notice will be published in the Federal Register and distributed to housing owners identifying the benefits that qualify for this exclusion.

Updates will be published and distributed when necessary. The following is a list of income sources that qualify for that exclusion:

- The value of the allotment provided to an eligible household under the Food Stamp Act of 1977;
- Payments to volunteers under the Domestic Volunteer Service Act of 1973 (employment through AmeriCorps, VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, senior companions);
- Payments received under the Alaskan Native Claims Settlement Act;
- Income derived from the disposition of funds to the Grand River Band of Ottawa Indians;
- Income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes;
- Payments or allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program;
- Payments received under the Maine Indian Claims Settlement Act of 1980 (25 U.S.C. 1721);
- The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the U.S. Claims Court and the interests of individual Indians in trust or restricted lands, including the first $2,000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands;
- Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under the Federal work-study program or under the Bureau of Indian Affairs student assistance programs;
- Payments received from programs funded under Title V of the Older Americans Act of 1985 (Green Thumb, Senior Aides, Older American Community Service Employment Program);
- Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the In Re Agent Orange product liability litigation, M.D.L. No. 381 (E.D.N.Y.);
- Earned income tax credit refund payments received on or after January 1, 1991, including advanced earned income credit payments;

- The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990;
- Payments received under programs funded in whole or in part under the Job Training Partnership Act (employment and training programs for Native Americans and migrant and seasonal farm workers, Job Corps, veterans employment programs, state job training programs and career intern programs, AmeriCorps);
- Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation;
- Allowances, earnings, and payments to AmeriCorps participants under the National and Community Service Act of 1990;
- Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran;
- Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of crime against the applicant under the Victims of Crime Act; and
- Allowances, earnings, and payments to individuals participating in programs under the Workforce Investment Act of 1998.

HUD Guidebook HUD-1780-CPD, Technical Guide for Determining Income and Allowances for the HOME Program, Third Edition, January, 2005

ATTACHMENT 3

Part 5 Annual Income Net Family Asset Inclusions and Exclusions	
Inclusions 1. Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance. Assets held in foreign countries are considered assets. 2. Cash value of revocable trusts available to the applicant. 3. Equity in rental property or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be incurred in selling the asset. Under HOME, equity in the family's primary residence is not considered in the calculation of assets for owner-occupied rehabilitation projects. 4. Cash value of stocks, bonds, Treasury bills, certificates of deposit, mutual funds, and money market accounts. 5. Individual retirement, 401(K), and Keogh accounts (even though withdrawal would result in a penalty). 6. Retirement and pension funds. 7. Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy). 8. Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc. 9. Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements and other amounts not intended as periodic payments. 10. Mortgages or deeds of trust held by an applicant.	**Exclusions** 1. Necessary personal property, except as noted in number 8 of Inclusions, such as clothing, furniture, cars, and vehicles specially equipped for persons with disabilities. 2. Interest in Indian trust lands. 3. Assets not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset. 4. Equity in cooperatives in which the family lives. 5. Assets not accessible to and that provide no income for the applicant.