

COMMUNITY DEVELOPMENT DEPARTMENT

82 Ionia Avenue, N.W. Suite 390
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LINDA S. LIKELY
Director

Kent County NSP1 Homebuyer Incentives/Assistance

Through the Neighborhood Stabilization Program (NSP), Kent County Community Development (KCCD) provides funds to selected developers to purchase foreclosed properties in specific target areas for renovation and resale. At resale, the NSP can provide homebuyer assistance to households who earn no more than 120% of the Area Median Income (AMI). Homebuyer assistance and/or incentives are required as part of the NSP to ensure affordability for a minimum of 5 years. This document explains who is eligible and how a homebuyer goes about accessing NSP assistance to purchase an NSP home.

Buying an NSP-assisted home means that not only has your home been brought up to meet local code, it has been carefully renovated to meet high energy-efficiency standards, has met lead-safe home requirements, and every part of the house has been addressed in the rehabilitation. The goal is to provide a high quality affordable home with prevention of costly repairs to the homebuyer in the first several years of ownership.

Homebuyer Incentives for “NSP Properties”

- Homebuyers will receive a minimum of \$1,000 toward closing costs or down payment assistance from Kent County NSP funds in the form of a deferred, forgivable loan recorded at closing (“soft second mortgage”).
- In general the NSP assistance will constitute at least 20% of the purchase price of the home and may also include closing costs over and above the 20% to make the home affordable to the buyer. The housing payment is considered “affordable” if the household spends no more than 25-30% of their monthly income on the mortgage principal and interest, taxes and insurance. The homebuyer education program may determine that a lower percentage is “reasonable and necessary” for a particular household based on individual circumstances. The final amount is determined by Kent County NSP staff, based on household income, home price and closing costs.
- A deferred loan means there are no payments and the loan is forgiven gradually over after the term of the “affordability period.” The affordability period for a homebuyer assisted with \$15,000 or less is five (5) years. Homebuyer assistance of \$15,000 to \$40,000 requires a ten (10) year affordability period. Homebuyers are expected to live in the home as their primary residence, and will not have to repay the loan as long as the affordability period is met.
- The homebuyer must complete at least 8 hours of homebuyer education at a HUD-approved housing counselor to qualify for assistance.

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Homebuyer Qualifications

The homebuyer's household income cannot exceed 120% of area median income.

| FY 2010 Income Limits for 120% of HUD Area Median Income | | | | | | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <u>1 person household</u> | <u>2 person household</u> | <u>3 person household</u> | <u>4 person household</u> | <u>5 person household</u> | <u>6 person household</u> | <u>7 person household</u> |
| \$52,500 | \$60,000 | \$67,500 | \$75,000 | \$81,000 | \$87,000 | \$93,000 |

Source: U.S. Department of Housing and Urban Development for Kent County MSA

Description of Homebuyer Subsidy or Incentive Process

NSP funds are intended to create affordable housing and stabilize neighborhoods. All of the NSP guidelines follow the requirements of the U.S. Department of Housing and Urban Development (HUD) to ensure that this purpose is met.

Homebuyer Subsidy or Incentive Process

1. The homebuyer must attend at least 8 hours of homebuyer education at a HUD-approved agency. The structure of these classes varies by agency. Typically a group class may be attended and then the homebuyer works one-on-one with a housing counselor to address their specific situation.
2. The homebuyer must qualify for a fixed rate first mortgage loan. KCCD will expect the homebuyer to take a mortgage where the principal, interest, taxes and insurance payment combined is no more than 25-30% of their monthly gross income. In some cases the percent may be lower or higher, depending upon circumstances of the buyer.
3. The homebuyer must contribute a minimum of 1% of the purchase price from his/her own funds to the home purchase (including fees paid outside of closing).
4. The homebuyer must complete income verification documentation required by the program. Typically this will be done with the homebuyer educator. This is separate from mortgage loan income verification although similar information is required.

Steps in the NSP home purchase process

1. The homebuyer enters into a purchase agreement for an NSP property with an NSP developer. The houses are priced based on a market analysis obtained by the developer.
2. The NSP developer determines in conjunction with homebuyer educator, the amount of homebuyer incentive/subsidy required to meet the affordability requirements of the buyer. The minimum homebuyer incentive is \$1,000 for households who are able to purchase the house within affordability guidelines.

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3. The purchase agreement will contain a contingency for receipt of Kent County NSP Homebuyer Assistance. This demonstrates to the first mortgage lender that the homebuyer will have the funds needed to close even though they would not have enough with their first mortgage alone.
4. Homebuyer assistance can help cover reasonable customary closing costs including up to fifty percent of required down payment, and/or can be used to write down the principal of the first mortgage loan.
5. The developer/seller will request a reservation NSP funds from KCCD for the homebuyer concurrent to the first mortgage underwriting process. When the request is made the County receives:
 - a) A "Reservation of Funds Form" showing the amount of incentive or subsidy requested,
 - b) Income computation worksheet showing verified Area Median Income of the household (must be < 120%AMI)
 - c) Prequalification letter from first mortgage lender
 - d) Draft purchase agreement
 - e) Homebuyer Education /Counseling Certificate
 - f) "Partner Agency Certifications Form"

KCCD will review the documentation and confirm eligibility. Reasonable requests will not be denied by Kent County Community Development, based on confirmed eligibility of the homebuyer.

6. KCCD will sign and return the reservation form to the lender and/or seller to confirm the amount of assistance brought to the transaction.
7. KCCD will prepare the second mortgage and promissory note with the amount provided at closing. The mortgage held by KCCD requires no monthly payments and a pro-rated amount is only due and payable upon default (e.g. the person sells or moves from the home prior to the end of the affordability period). These documents will be discussed with the homebuyer by the homebuyer educator.
8. When the closing is scheduled, KCCD will receive a copy of the HUD-1 Settlement Statement and confirm the final subsidy amount. The "Homebuyer Subsidy Assistance /Incentive Invoice for Payment" is submitted by the lender/seller. The funds for the homebuyer subsidy or incentive amount will be provided by KCCD at closing as either a credit to the buyer or a check delivered to closing along with second mortgage documents securing the affordability period.

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- Units assisted with NSP or HOME dollars of \$15,000 or less are subject to a five year affordability period. Units with homebuyer assistance of \$15,001 to \$40,000 will be subject to a ten year affordability period. If the homebuyer sells the residence prior to the end of the affordability period, the assistance is subject to recapture on a proportional basis by Kent County out of net proceeds at sale.

Example:

The Green household has four people and an annual household income of \$45,000. They qualify for a mortgage of \$111,000. The NSP house they would like to purchase has a listing price of \$120,000 and closing costs will total \$4,000. The Greens meet the income qualification for a family of four. In order to afford the house, in addition to the 1% cash (\$1,200) required by their own funds, they would need \$11,800 to purchase the home. Based on this scenario, the household would be eligible for the \$11,800 as a homebuyer subsidy. The affordability period would be five years.

For more information, please contact Stephanie Gingerich or Tracy Clingan at 616-632-7413, or 632-7428.

Kent County NSP Participating Developers

Inner City Christian Federation (ICCF)*
(616) 336-9333
<http://www.iccf.org/programs/>

Lee Kitson Builder, Inc.
(616) 363-6860
<http://www.leekitsonbuilder.com/>

Lighthouse Communities, Inc.*
(616) 451-9140
http://www.lcgr.net/housing_services.php

Mohawk Communities
Construction Group, LLC
(616) 241-5126
<http://mohawkcq.com/>

Habitat for Humanity of Kent County
(616) 774-2431
www.habitatkent.org

* Also a HUD-approved Housing Counselor