
Neighborhood Stabilization Program (NSP)

City of Modesto
Parks, Recreation and Neighborhoods Department



Overview of the NSP

- The City of Modesto received \$8.1 million in U.S. Department of Housing and Urban Development (HUD) funding.
 - Stabilize communities impacted by the foreclosure crisis.
 - Serve low/moderate/middle income (LMMI) households.
 - Be allocated within 18 months:
 - Incentive Transfer Program;
 - Down Payment Assistance Program;
 - Acquisition and Rehabilitation
 - Airport, Weed & Seed Target Areas; and
 - Scattered Sites

Overview of the NSP

- Incentive Transfer Program
 - Administered by the Housing Authority of the County of Stanislaus. Moves current residents in public housing into scattered sites throughout Modesto to take the next step in self sustainability. Serves those at and below 50% of the area median income.
- Acquisition and Rehabilitation Airport, Weed & Seed Target Areas
 - A Request for Qualifications (RFQ) will be released in May to groups that have the capacity to purchase and rehabilitate foreclosed properties within the Airport, Weed & Seed and other surrounding areas with a high concentration of foreclosures. Properties will need to be resold or rented to those at or below 120% of the area median income.
- Acquisition and Rehabilitation Scattered Site
 - A Request for Qualifications (RFQ) will be released in May to groups that have the capacity to purchase and rehabilitate foreclosed properties throughout the City of Modesto. Properties will need to be resold or rented to those at or below 120% of the area median income.

NSP Down Payment Assistance Program (NSP DPAP)

- \$1,271,031 of NSP funds allocated to assist program eligible low/moderate/middle income (LMMI) homebuyers.
- Funds can be utilized for down payment assistance, reasonable closing cost, and rehabilitation of foreclosed properties.

Eligibility Requirements

- Qualify as LMMI households;
- **Live** in the City of Modesto, or **been employed** within the City of Modesto limits for the past six months;
- Must occupy the property as a **principal** residence;
- Cannot have title on any other property;
- Obtain the maximum loan amount from the first mortgage loan; and
- Complete at least 8 hours of homebuyer counseling from a HUD-approved housing counseling agency prior to participating in the program.

Eligibility Requirements (cont.)

- Contribute minimum initial investment of 1% of sales price;
- FICO (Fair Isaac Company) scores must be 600 or higher;
- Should not exceed 31% of the household income;
- Insurance coverage:
 - Fire insurance coverage on the home from the date of closing
 - Flood insurance if the home is located within the floodplain
 - The City must be listed as lien holder on the policies

Income Limits for LMMI

| HOUSEHOLD SIZE | INCOME LIMIT |
|-----------------------|---------------------|
| 1 Person | \$50,050 |
| 2 Person | \$57,200 |
| 3 Person | \$64,350 |
| 4 Person | \$71,500 |
| 5 Person | \$77,200 |
| 6 Person | \$82,950 |
| 7 Person | \$88,650 |
| 8 Person | \$94,400 |

Property Eligibility

- Single family home, a condominium, or a planned unit development, or manufactured housing on its own lot and affixed to a permanent foundation;
- Located in a residentially zoned area within the City limits of Modesto;
- Must be a foreclosed home (i.e. bank owned); and
- Purchase price must be at a minimum of 15% discount from the current market appraised value of the home.
 - Discount should ensure that the homebuyer is paying below-market value for the home.

Property Eligibility (cont.)

- The purchase price of the home or after-rehabilitation value must not exceed the actual 95% of median sale price for Modesto:
 - Currently \$228,000 for 1-unit, as determined by HUD;
 - Must be vacant at the time of listing.
- Must meet Housing Quality Standards (HQS), as defined by HUD.
 - If the home cannot meet Housing Quality Standards prior to the loan closing, a portion of the City loan can be used for rehabilitation of the property.

Loan Amount

- The combined maximum loan amount for downpayment assistance and rehabilitation of the property is up to \$125,000.
- Loan funds can also be used to pay reasonable closing costs, and rehabilitation of the property to meet Housing Quality Standards.
- Health & safety issues found during the home inspection would be eligible under rehab costs

Affordability Period

- Affordability covenant depends on the total amount of financial assistance provided by the City.

| <u>Loan Amount</u> | <u>Affordability Period</u> |
|---------------------|-----------------------------|
| Less than \$15,000 | 5 years |
| \$15,000 - \$40,000 | 10 years |
| More than \$40,000 | 15 years |

- If the homebuyer sells the home or ceases to use it as a principal residence within the affordability period:
 - the loan amount shall be recaptured
 - the homebuyer is required to repay all or a portion of the subsidy; or
 - the borrower must sell the home to an income eligible household.

NSP DPAP Loan Terms

- No interest accrued during the first five years.
- In year six, the loan will begin to accrue interest at the rate of 2% simple interest.
- The total amount of the loan, plus accrued interest, becomes due and payable upon:
 - sale or transfer of ownership,
 - refinancing of the property, or
 - change of use of the property (*if participant(s) not using the property as a primary residence*).
- The loan will remain due and payable by the participant during the affordability period.

Rehabilitation Loan Terms

- No interest accrued during first five (5) years.
- In year six, the loan will begin to accrue interest at the rate of 2% simple interest.
- Payments will be amortized in years six (6) through thirty (30).
- There is no prepayment penalty.
- There is no charge or penalty for making full or partial payments on the loan.

Debt Ratios

- **Front-End Ratio:** The standard guideline is 31%. The front-end ratio is the gross income divided by the new PITI (principal, interest, taxes and insurance), Homeowners Association (HOA) and mortgage payment.
- **Back-end ratio:** The standard guideline is 43%. This is the gross income divided by the new PITI mortgage payment and also the minimum monthly payments from the Participant(s)'s liabilities.
 - Ratios in excess of 43% will be considered on an exception basis depending upon the overall strength of the application.

Properties in Good Condition

- Prior to signing loan documents the property must be move in ready.
- Must meet Housing Quality Standards, as defined by HUD.
- Termite inspection/clearance.
- Homes built prior to 1978 must be inspected for lead-based paint by a Certified Risk Assessor/Inspector.
- Property inspection by certified property inspector.

Properties Requiring City Financed Repairs

- The cost of the required repairs must exceed \$1,000.
- The rehabilitation of the property must follow City's current Rehabilitation Program policies.
- Health, safety and energy conservation items must be address prior to completing general home improvements. Luxury items are not eligible.
- All work shall follow lead based paint safety regulations as per Code of Federal Regulations (CFR) 24 part B, California Code of Regulations Title 17 & Title 8 and all applicable codes.

Properties Requiring City Financed Repairs (cont.)

- The following costs are eligible as part of the City's loan (list not inclusive);
 - Labor and materials
 - 10% contingency for unforeseen costs
 - Plans
 - Work Write up
 - Energy Calculations
 - Lead Based Paint Inspection or Clearance
 - Termite Clearance
- Any costs that must be paid prior to closing are the responsibility of the participant, a portion of these costs can be reimbursed to the buyer at closing or utilized toward meeting the 1% contribution.

Properties Requiring City Financed Repairs (cont.)

- If the home cannot be occupied at closing, the loan papers will require the homebuyer to be responsible for alternative living expenses during the work period.
- The construction documents will state which work must be required prior to move in and the estimate move in date.
- If the homebuyer is not occupying the home during the work period, the homebuyer is still responsible for the hook up and cost of all utilities during the work period.
- Any rehabilitation funds not used will be applied to the principal balance of the loan.

Qualification Process

- Participant completes HUD approved first time homebuyer class and provides a certificate of completion.
- Participant works with a qualified lender to apply for a first mortgage and to complete a NSP DPAP application.
- City staff will review application.
- Housing Quality Standards (HQS) inspection will be conducted by City staff.
- Complete loan application package is submitted to the Housing Rehabilitation Loan Committee for approval.
- Timeline process may take minimum four weeks from the time the City receives the application.

Conditions for Disbursing Funds

Before disbursing any City funds, the homebuyer must:

- Meet all the NSP DPAP eligibility requirements.
- Submit a complete application package from first mortgage lender, including accepted sales contract. The contract should include contingency for City financing and repairs.
- The initial application must include first mortgage loan approval with any conditions, and with property to be determined.
- Secure permanent financing (first mortgage).
- Execute the City's loan documents (Loan Agreement, Promissory Note, Deed of Trust) assuring compliance with the applicable requirements of the program.
- Meet all the conditions outlined in the City of Modesto's loan approval.