



**Washington County Community Development
Agency (CDA)**

**Down Payment Assistance Program
Policy Manual**

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- 1. Approval Once approved, the homebuyer(s) and their lender will be notified in writing of the approval and amount of approved DPA loan. 11
- 2. Suspension The homebuyer(s) and their lender will receive a notice that the DPA loan application is suspended and detail the items necessary to proceed with a decision on the application. 11
- 3. Denial If the application does not meet the compliance requirements mentioned in this policy, the homebuyer(s) and their lender will be notified in writing. 11
- 4. Appeals Policy The homebuyer(s) may appeal a denial. Such appeal must be made in writing to the Deputy Executive Director within 14 calendar days of the decision date. 11

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Mission, Vision, and Values

Through innovation, the Washington County Community Development Agency (CDA) promotes community and economic development and provides and maintains affordable, decent and safe housing opportunities in Washington County (the County).

The CDA is committed to assisting low and moderate-income families with the purchase of affordable housing within the County. The CDA shall not deny any family or individual the equal opportunity to apply for or receive assistance under the Washington County CDA Down Payment Assistance Program (DPA) based on race, color, gender, religion, creed, national origin, age, familial or marital status, handicap or disability, sexual or affectional orientation or reliance on public assistance.

SECTION I: General Program Description

Program Need: While the County has one of the highest area median incomes in the Twin Cities area, the average yearly wage for a person working in the County is much lower than those that live in the County but work elsewhere. For those employed in the County, the average weekly wage is \$846, or \$43,992 gross annually, this can be enough to afford the entry level multifamily home. Though, this is assuming they are a good credit risk and have minimal outstanding debts. However, the average wage is still well under the income needed to afford a single-family entry-level home in the County.

One in every five homeowners in the County (15,198 households) pays more than 30% of their gross monthly income, which most deem affordable, on housing expenses and are considered housing cost burdened. Over half (57 %) of homeowners with incomes of \$50,000 or less are housing cost burdened. Assuming the buyer receives a 30-year mortgage at 4% interest, a household income of \$61,447 is required to afford an entry level single family home priced at \$250,000. An entry-level multifamily townhome priced at \$150,000 is more affordable and requires a minimum annualized gross income of \$38,868. The move-up multifamily home priced at \$260,000 is just above the entry-level single-family home price with similar affordability levels and requires an annualized gross income of \$64,438.

Homeownership in the County is out of reach for employees in retail trade and the accommodation and food services sectors, which make-up over a quarter of the employment opportunities, as these sectors pay a fraction of the annual income needed to afford homeownership.

Additionally, the County homeownership rates for white, non-Hispanic households linger around 83%. While households of color or Hispanic ethnicity homeownership rates hover around 64%. The County's emerging markets are increasing in population and are projected to continue increasing.

Program Purpose and Goals: The purpose of the DPA program is to encourage economic integration, help close the homeownership gap between households of color or ethnic diversity and white households and provide additional affordable housing opportunities in the County. Further, the DPA program will provide homebuyers in the County with an additional down payment assistance option.

The DPA program provides need-based assistance opportunities (up to \$10,000) to those with annualized gross household incomes at or below the income limits set by Minnesota Housing. DPA loans are available to qualified households with an active purchase agreement and who meet all DPA qualifications. DPA loans will help ensure homebuyers using the program will not spend more than 30% of their gross monthly income on housing costs and help lower the overall cost of home purchase.

DPA loans must be paid back, are non-amortizing, deferred, and interest-free. Qualified buyers can use funds towards the applicable costs outlined in Section II to purchase a home within the County.

Program Funding: DPA loans are available on a first-come, first-served basis to buyers who meet ALL program guidelines until funds are depleted. Funding for the DPA program comes from Minnesota Housing's Community Homeownership Impact Fund Program and is administered by the CDA. Administration of the DPA program, the policy, procedures, and responsibilities of the CDA program administrator shall follow Minnesota Housing Impact Fund regulations. Administration of funds will comply with standard underwriting requirements of the secondary market. Additionally, the CDA program administrator will follow all Federal, State and local nondiscrimination laws, ordinances, regulations and orders within the rules and regulations governing Fair Housing and Equal Opportunity in housing.

Administrative Fees: Minnesota Housing allows for a maximum administration fee of \$500 per loan. Administration fees will not be charged to the homebuyer and the CDA will be reimbursed at the time of closing using Minnesota Housing's Impact Fund grant funds.

The CDA program administrator will track all approved loan administrative costs in the borrower file. Approved costs include lender identification, communication, requesting funds from Minnesota Housing, loan coordination, document preparation, reporting, and other costs as approved in writing by Minnesota Housing.

Program Timeline: Unless otherwise stated by Minnesota Housing, Impact Funds are available to use towards the DPA program on a rolling 20-month basis or until DPA funds are exhausted. Any funds not used by the CDA during that period will return to Minnesota Housing.

SECTION II: Program Requirements

1. Eligible Use of Funds for the Purchase of a Home in Washington County

- Down payment and closing costs;
- Mortgage principal reductions;
- Escrow reserves deposited with the lender for property taxes, insurance, or monthly assessments;
- Other settlement charges due at closing

2. Ineligible Use of Funds for the Purchase of a Home in Washington County

- Purchase a recreation or seasonal home;
- Purchase of investment property;
- Use of funds towards the first loan product's required minimum borrower investment, when DPA funds are not an acceptable source of funds for the minimum investment;
- Cash back to the homebuyer at closing;
- Reimbursement of earnest money, deposits or costs paid outside of closing;
- Payment of non-housing related costs;
- Payment of property taxes or utilities incurred by or the responsibility of the seller;

- Other expenses unrelated to the purchase transaction that is owned by the seller;
- Expenses unrelated to purchase transaction; and
- Layering DPA funds with any other Impact Fund Dollars unless approved in writing by Minnesota Housing.

3. Homebuyer Qualification Requirements

A. **First-time Homebuyer:** The buyer must be considered a first-time homebuyer purchasing a qualified home within Washington County, Minnesota. First-time homebuyer is defined as a person or persons who have not owned a dwelling of any kind within the preceding three years from the date of application or who have been displaced due to a divorce situation. Those purchasing a dwelling using contract for deed will not be considered a first-time homebuyer and are not eligible to participate in this program.

B. **Income Limits:** The maximum annualized gross household income of all required income sources cannot exceed 80% of the area median income (AMI) as set by Minnesota Housing on a yearly basis. A breakout of these figures can be found on Minnesota Housing's Impact Funds website here:

<http://www.mnhousing.gov/wcs/Satellite?c=Page&cid=1358906164357&page name=External%2FPage%2FEXTStandardLayout>

The format for calculating household income is outlined in the Minnesota Housing *Income Determination Worksheet* and will be calculated by the CDA staff.

C. Sources of Income Included and Excluded

a) Income from the following sources are included to determine DPA eligibility:

- Base wages: income from full-time, part-time, or seasonal work with regular hours, paid hourly, weekly or monthly, etc.;
- Variable wages: income from commissions, overtime, bonuses, irregular employment, shift differential pay, tips, profit sharing, sick pay, holiday pay, and vacation pay;
- Employer paid allowances: including but not limited to housing allowances, car allowances, cell phone allowances, etc.;
- Self-employment or business income;
- Income from financial assets: including, but not limited to trusts, annuities, recurring capital gains, dividends, royalties, and interest earned on any non-retirement account;
- Government Transfer Payments: including retirement, disability, medical, or social security benefits. Pensions, veteran's benefits, workman's

compensation, public assistance, unemployment, federal education and training assistance, income maintenance benefits, and flexible benefit cash;

- Insurance or benefit payments: including long-term care insurance, disability insurance, pensions, or death benefits;
- Child support and/or spousal support;
- Regular financial contributions from an individual or individuals whose income does not need to be included in the Annualized Gross Income calculation;
- Custodial account income received on behalf of a minor dependent;
- Estate Income; and
- Any other sources of income not specified as excluded in the list below.

b) Income from the following sources are excluded when determining DPA eligibility:

- Income that is no longer available: one-time non-recurring income that does not have a history and not likely to reoccur in the future, potential income from a roommate, and other non-recurring payments from: inheritances, insurance settlements, lottery winnings, gambling winnings, capital gains, liquidation of assets, or settlements for personal loss;
- Transfers between individuals whose income must be included in the Annualized Gross income calculation;
- Income generated by Individual Retirement Accounts, Volunteer Investment Programs, 403(b), and 401(k) accounts;
- Supplemental Nutrition Assistance Program
- Contributions of food;
- Government-paid child care that is paid directly to the childcare provider;
- Foster care income;
- 529 plans, educational scholarships, grants, loans or tuition reimbursement;
- Earned Income Tax Credit refund payments
- Court-ordered child or spousal support not received;
- Custodial accounts income where someone other than the parents are named as custodian; and
- Custodial account income received on behalf of adult dependents whose income does not need to be included in the Annualized Gross Income calculation.

D. Whose Income to Include

Household Member	Include Income?
Head of household	Yes
Spouse	Yes
Cohabiting partner	No, unless they are head of household, on the subject property's title, owner or co-borrower
Temporarily absent household member	No, unless they are head of household, on the subject property's title, spouse, owner or co-borrower
Other adults, 18 years or older	No, unless they are head of household, on subject property's title, spouse, owner or co-borrower
Full-time Student, 18 years or older	No, unless they are head of household, on subject property's title, head of household, spouse, owner or co-borrower
Dependent, 17 years or younger	No
Foster child	No
Live-in aide	No

E. Asset Limitations: Borrowers using the DPA program may have no more than six (6) months principal, interest, property taxes, property insurance and other allowable housing costs (PITI), in liquid assets after closing the DPA loan. Individual Retirement Accounts, 401Ks, and other tax-sheltered retirement accounts do not have to be considered in calculating maximum assets, unless borrower is receiving income from the source.

Assets Included: cash on hand, cash in savings or checking accounts (including trust accounts), the cash value of life insurance policies, stocks, bonds, certificates of deposit, investment securities such as state and local bonds, and any personal business equipment owned by the applicant that is considered a personal asset.

F. Buyers' Minimum Investment: The buyer must contribute at least \$1,000 of personal funds towards the purchase transaction to receive DPA. Investment may include expenses paid by the buyer prior to closing such as appraisal fees, home inspection fees, earnest money, and cash at closing. Buyers are not allowed to receive cash back at closing. Any money received by the buyer at closing will result in a reduction of DPA funds by the amount received by the buyer.

G. Buyers' Maximum Investment: A buyer may not contribute more than 20% of the purchase price, unless necessary to lower the housing ratio to 30% of

the gross monthly household income. The buyer(s) must get preapproval from the CDA prior to making more than a 20% contribution.

- H. **Homebuyer Education and Counseling:** To qualify for participation in the DPA program, **all borrowers on the first mortgage** must successfully complete a HUD-approved homebuyer education program within one year prior to purchase. Evidence of successful completion of homebuyer education must be provided to the CDA prior to issuance of the check for the DPA program. HUD-approved homebuyer education must be provided through a HUD-approved housing agency. Approved homebuyer education includes and is limited to the following: Home Stretch, Framework, or Pathways to Homeownership.

Additionally, **all borrowers** must attend a Homebuyer Counseling session with a HUD-approved housing counseling agency. The Washington County CDA offers both services and homeowners can visit the Housing Resource page: <https://washingtoncountycda.org/> or call 651-202-2822 to register for homebuyer education and counseling. Additionally, there is a list of approved education opportunities and HUD-approved counseling agencies available on the internet at www.HOCMN.org.

- I. **Homebuyer Occupancy:** Buyer must take occupancy of the dwelling within 30 days after closing, homestead the property, and continue to occupy the dwelling as their principal place of residence. If the property is no longer the principal place of residence of the homebuyer, the DPA loan must be repaid in full.
- J. **Unauthorized Compensation:** Households shall not receive kickbacks, rebates, discounts, and/or compensation from any party in the transaction.

4. Property Qualification Requirements

- A. **Eligible Properties:** Residential property must be within Washington County, Minnesota. Any new construction must be completed prior to closing. Eligible properties include single-family homes that are either attached or unattached, land trust properties where there is at least a 50-year leasehold interest in the property, manufactured housing (see note below), and properties that contain no more than four units, one of which must be occupied by the buyer.

Manufactured Housing: Homes must be built to Federal Manufactured Home Construction Safety Standards, the unit is situated on a permanent foundation and anchored to a basement, slab, or footings to the frost line, wheels, axles, and trailer hitches must be removed, is connected to permanent utility hook-ups, and the unit is assessed as real estate for property tax purposes. All properties must meet the requirements of the underlying loan product and the applicable insurer/guarantor. *Manufactured homes taxed as personal property may be eligible Qualified Dwelling Units but must be pre-approved at the sole discretion of Minnesota Housing.*

- B. Purchase Price Limits:** Purchase price must not exceed the limits set by Minnesota Housing for their first-time homebuyer mortgage in the 11-County Metro area, which is currently \$328,200. Purchase price limits are subject to change and current limits can be found under the **Find a Home** tab on MN Housing's website here:
<http://mnhousing.gov/wcs/Satellite?c=Page&cid=1457373575003&pagename=External%2FPage%2FEXTStandardLayout>
- C. Home Inspection:** Lenders must provide evidence that a licensed, bonded, and insured home inspector has inspected the property. A copy of the inspection must be provided to the CDA program administrator before a request for DPA funds will be made. Any physical deficiencies or required repairs must be addressed prior to closing. If necessary, repairs not made prior to closing must be addressed using an escrow account at closing. A copy of the escrow agreement must be provided to the CDA program administrator prior to closing.
- D. Appraisal:** Must be prepared by an appraiser independent of the loan production process, follow the Uniform Standards of Professional Appraisal Practice guidelines, contain sufficient information and analysis to support the final value, and be performed by a state licensed or certified appraiser. Borrowers, sellers, real estate agents or other interested parties are not allowed to select appraisers. The appraisal must document that the home has an economic life equal to the loan term plus 10 years. Any physical deficiencies or required repairs must be addressed prior to closing and an updated appraisal showing the issues have been addressed must be provided. If necessary, repairs not made prior to closing must be addressed using an escrow account at closing. A copy of the escrow agreement must be provided to the CDA prior to closing.
- E. Title Examination Requirements:** At the time the homebuyer acquires title to a qualified property, the title for that property must be established by way of an attorney's legal title opinion or a title insurance policy showing the homebuyer is acquiring clear and marketable title.

5. First Mortgage Requirements

- A. First Mortgage Loan Requirements:** Buyers must be approved for mortgage financing and have an active purchase agreement prior to a reservation of DPA funds. All local, state, and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending, and wrongful discrimination in residential housing are met.

First loans must allow for a second mortgage on the property, have at least a 30-year term and amortization, permanently fixed interest rate that does not exceed the current market rate, and the loan cannot require a down payment that exceeds 5% of the sales price. No rollover, adjustable rates, or other mortgage loans with principal balloons will be permitted.

Buyers are encouraged to pursue affordable mortgage financing from a Minnesota Housing approved lender, as those programs often have below-market interest rates and often have additional down payment assistance available to qualified households.

- B. **Mortgage Payment Limits:** A homebuyer's principal, interest, property taxes, property insurance, association dues or lease fees, and mortgage insurance (PITI), referred to as the frontend ratio must be at least 25% of the gross monthly household income and cannot exceed 30% of the gross monthly household income. Exceptions to these ratios may be made depending upon the individual circumstances of the household; exceptions are determined by MN Housing on a case by case scenario by requesting an exception.

If the frontend ratio is below 25%, CDA staff must get an approved housing ratio waiver from MN Housing **prior to closing**. MN Housing does not grant exceptions on frontend ratios below 20% of the household's gross monthly income. For the steps and documents necessary to request an exception, review the CDA DPA procedures manual.

To ensure sustainable homeownership, the sum of all other debt (backend ratio) at time of application approval combined with the anticipated PITI should not exceed 43% of overall gross household income.

Ratios will be documented through the CDA program administrator's collection of documents, the first mortgage lender's Uniform Underwriting and Transmittal Summary (1008 form), the Uniform Residential Loan Application (1003 form), and the documentation provided to fill out the MN Housing Income Calculation Worksheet.

- C. **Lender Requirements:** Lenders must be FHA approved and have a desire to provide mortgage products to low-to-moderate-income households.
- D. **Other Down Payment Assistance:** Washington County CDA DPA funds can be layered with other down payment and closing cost assistance funds. Additional funds will be reviewed on a case-by-case basis to ensure there are no duplicative Impact Funds unless specifically approved in writing by Minnesota Housing. Buyers are required to apply for and use all other down payment assistance resources available, such as Minnesota Housing, lender, and/or city down payment assistance before applying for CDA DPA funds.

SECTION III: Minimum / Maximum Down Payment Assistance

1. Minimum and Maximum Down Payment Assistance Amount

The CDA offers down payment and closing cost assistance of up to 10% of the purchase price with a maximum of \$10,000 for those households whose income falls between 50%-65% AMI per the household income limits set in Section 2 Part 3.B of this policy manual.

The CDA offers down payment and closing cost assistance of 5% of the purchase price with a maximum of \$7,500 for those households making between 66%-80% AMI per the household income limits set in Section 2 Part 3 B of this policy manual.

If the household's frontend ratio is less than 25%, a MN Housing waiver must be requested. The amount of DPA would be reduced to meet MN Housing minimum frontend housing ratio guidelines if a waiver is not approved by MN Housing. **IF** after DPA funds are applied the housing ratio remains above 30% of the gross monthly income, the DPA loan will not be approved.

The exact amount is determined based on the following factors:

- Maximum gross household income is based on MN Housing Impact Fund income limits, which cannot surpass 80% AMI of the **11- County Twin Cities Metro Area**;
- Home sale price based on the signed and agreed upon purchase agreement, which cannot surpass the maximum purchase price;
- The amount approved for on the first mortgage based upon the lender's Loan Estimate;
- The frontend housing ratio including principal, interest, property taxes, hazard insurance, mortgage insurance, land trust lease fees, and homeowner's association dues;
- Once the DPA funds are applied, backend housing ratio which includes payments for all long and short-term debts that will not be paid off prior to closing in combination with the all frontend housing costs listed above, must be at or lower than 43% of the gross monthly household income;
- Amount of down payment, closing cost, and/or monthly payment assistance from other sources. Buyers must maximize assistance from other sources before qualifying for DPA funds;
- The amount of borrower contribution for down payment and closing costs, at least \$1,000 or the amount required by first mortgage loan product. Unless otherwise approved, a homebuyer(s) cannot put more than 20% down towards the purchase price. For FHA loans, borrowers are required to contribute 3.5% of their own funds as a down payment for which DPA funds may be used to cover subject to change according to Mortgagee Letter 2019-06.
- Amount of liquid cash reserves after closing is not more than six (6) months of PITI;
- DPA funds will not be adjusted based on the level of other debt, for example, car loans, credit cards, etc., accumulated by the borrower;
- Borrowers are not allowed to receive cash at closing and any cash received by the buyer at closing will reduce the amount of the DPA loan.

SECTION IV: Down Payment Assistance Loan Terms

The DPA loan will be secured by a Minnesota Housing Impact Fund Mortgage and note. The household is required to be a party to the mortgage to protect the Impact Fund subsidy. The Mortgage will be assigned to Minnesota Housing after closing.

- All loans are deferred with 0% interest;
- Unless otherwise noted, all loans will be assigned to Minnesota Housing and serviced by AmeriNational, unless otherwise assigned by Minnesota Housing;
- Loans are due upon sale, the satisfaction of the first mortgage, the borrower ceases to occupy the property as their principal residence, or on the date that is 30 years from the date of the loan closing;
- Loans are not assumable.

SECTION V: Approval, Suspension, Denial, and Appeal

1. **Approval** Once approved, the homebuyer(s) and their lender will be notified in writing of the approval and amount of approved DPA loan.
2. **Suspension** The homebuyer(s) and their lender will receive a notice that the DPA loan application is suspended and detail the items necessary to proceed with a decision on the application.
3. **Denial** If the application does not meet the compliance requirements mentioned in this policy, the homebuyer(s) and their lender will be notified in writing.
4. **Appeals Policy** The homebuyer(s) may appeal a denial. Such appeal must be made in writing to the Deputy Executive Director within 14 calendar days of the decision date. Appeals should include reason the homebuyer(s) believes they should be approved regardless of not meeting all loan requirements and any supporting documentation the homebuyer(s) feel would support their request for approval. CDA staff will help facilitate the communication process between homebuyer(s) and the Deputy Executive Director.

SECTION VI: Policy Modifications

The Washington County CDA shall have the authority to make modifications to this policy as necessary for the continued implementation of the program, including, but not limited to: (1) policy revisions necessary due to a change in design of the Washington County CDA Down Payment Assistance Program; and (2) policy changes necessary due to revisions in the rules and regulations of the Impact Fund program as administered by the Minnesota Housing Finance Agency.

The CDA has the right to amend this policy and/or discontinue the Washington County CDA Down Payment Assistance program at any time. CDA Down Payment Assistance funds are limited and once expended the program will terminate.

