Kane County Foreclosure Redevelopment Program
PROGRAM FINANCING FACT SHEET AND GUIDELINES

Program Contact: Karen Zilly, Program Manager - zillykaren@co.kane.il.us; (630) 444-3027

Homebuyer Qualification:
To qualify for the program, homebuyers:
1) Must complete HUD-certified Homebuyer Counseling from a HUD certified agency. Please note that an online course/workshop alone does not satisfy this requirement (See **Homebuyer Counseling**).
2) Must contribute a downpayment of at least 1% of the purchase price of the home they wish to purchase
3) Must not exceed Federal income limits (see table below). Gross income is calculated in accordance with HUDs guidelines (*not Net income*).

Income Limits:
Household income must not exceed these limits, as adjusted for household size.

Household Size	1	2	3	4	5	6	7	8+
Maximum Household Income *(effective 6/1/2021)*	\$52,200	\$59,650	\$67,100	\$74,550	\$80,550	\$86,500	\$92,450	\$98,450

Homebuyer Counseling:
Homebuyers must complete homebuyer counseling from a HUD certified counselor/agency* prior to scheduling a closing for the purchase of the home. Please make sure that the agency can confirm that they are in compliant with HUD's guidelines for Homebuyer Counseling. While Kane County DOES NOT OFFER this service, various local agencies do and may charge appropriate fees. Please be aware that while taking an online course such as Framework can provide valuable information, online courses/group workshops alone do not complete the Homebuyer Counseling requirement – counseling must include customized services to the homebuyer. Homebuyers will be required to provide a signed and dated certification from the Housing Counselor.

* Local HUD-certified Housing Counseling agencies include:
- The Neighbor Project (Aurora) (Contact Jerria at 630-906-9400 extension 123)
- Consumer Credit Counseling Service of Northern Illinois (Elgin) (Contact Erika at 224-769-7440)
- DuPage Homeownership Center (Wheaton) 630-260-2500

Monthly housing payment affordability:
To receive the Kane County second mortgage, the monthly housing payment, including Principal, Interest, Property Taxes, Property Insurance, Mortgage Insurance, and including any association fees (i.e. condo or homeowner association fees) (*front-end ratio or housing expense ratio*) must be between **25% to 32%** of the total household monthly income as determined by Kane County. If the first mortgage housing payment is less than 25% of your household monthly income, your second mortgage from Kane County will be reduced to amount that brings your first mortgage housing payment to 25% of your total household monthly income. In the event that your first mortgage payment is over 32% of your household monthly income, Kane County will not be able to provide assistance and will cancel your qualification for a second mortgage.

Monthly overall debt liability:
To receive the Kane County second mortgage, the monthly housing payment, including Principal, Interest, Property Taxes, Property Insurance, Mortgage Insurance, and including any association fees (i.e. condo or homeowner association fees) plus other monthly debt payments (*back-end ratio or debt-to-income ratio*) must not exceed 50% of the total household monthly income. In the event that your back-end ratio or debt-to-income ratio is over 50% of your household monthly income, Kane County will not be able to provide assistance and will cancel your qualification for a second mortgage.

Homebuyer asset review and cash reserve evaluation:
The homebuyer must provide a copy of their First Mortgage loan application in order for the County to review assets and cash reserves to: 1.) assist in determining the amount of assistance to be offered, and 2.) ensure the homebuyer has cash reserves to address unanticipated emergencies or issues without impacting ability to stay current with housing payments.

Downpayment:
Not including any assistance provided by the County through this program, the applicant is required to contribute a minimum down payment of at least 1% of the purchase price. The County will require that the purchaser deposit a minimum 1% earnest money with contract to comply with this requirement. *(*First mortgage lender may require more.)*

Pre-Purchase/Contract Requirements:
1) Homebuyers must complete homebuyer counseling from a HUD certified counselor/agency* prior to scheduling a closing.
2) Homebuyers must have a downpayment of at least 1% of the purchase price of the home they wish to purchase *(to be deposited as earnest money with contract)*. *(*First mortgage lender may require more.)*
3) Before executing a Real Estate Contract, homebuyers must be sure that the real estate agent has the required **Real Estate Sales Contract Rider**. The Rider will be provided to Homebuyers with their Qualification Letter. The Real Estate Sales Contract Rider must be signed and dated by Buyer, and this document must be attached to/submitted with the Buyer's initial signed and dated offer/real estate contract.

Kane County Loan/Disclosures:
1) To the homebuyer, Kane County will provide a second mortgage for a maximum of $15,000 (minimum of $1,000) for down payment. The amount of the loan will be finalized after evaluation of the homebuyer's monthly debt liability, homebuyer asset review and cash reserve evaluation.
2) The Kane County second mortgage is a 0% deferred-payment loan. This second mortgage is NOT A GRANT and is NOT A FORGIVABLE LOAN. It is a **DEFERRED PAYMENT LOAN** - it will be due when the home is sold, the title is transferred, or the household no longer occupies the home as their primary residence; the full amount of the loan will be due at that time of one of these events.
3) At closing, Kane County will provide funds for the loan, as well as a Mortgage and Promissory Note for signature by Homebuyer.
4) Kane County's assistance will be secured by a mortgage, which must be recorded with the applicable County Recorder. **The buyer is responsible for any title charges and the cost associated with document recording (contact your title company regarding applicable fees and charges)**.
5) Recapture policy to meet HUD guidelines: The first 5-10 years of the deferred loan term will satisfy HUD's required affordability period. The deferred loan term will then continue, with the loan due when the home is sold, the title is transferred, or the household no longer occupies the home as their primary residence. The full amount of the loan will be due at that time, out of net proceeds.

Title insurance:
Kane County does not require a title policy for its second mortgage loan, however it is required that the First Mortgage Lender's Title Commitment include in Schedule B the mortgage from borrower to Kane County Office of Community Reinvestment, securing the principal amount of the loan.

Hazard insurance:
Prior to or at closing, homebuyer must provide proof of hazard insurance with Kane County as a Mortgagee, "Kane County, by and through its Office of Community Reinvestment, its successors and/or assigns, 143 First Street, Batavia IL 60510".

First Mortgage Structure. Financing must comply with guidelines stated below:

1) First mortgages must be fixed-rate loans for the entire term of the loan;
2) Interest rates on first mortgages cannot exceed the FNMA 30-year rate (60-day delivery) on the date of origination, plus 150 basis points (BPS);
3) Maximum Combined Loan-to-Value (CLTV): 99%. CLTV is the ratio of **all loans** compared to the appraised value of the property. Kane County's 0% deferred loan is a LOAN, and shall be considered in the calculation of the CLTV; Kane County's Loan is NOT A GRANT.
4) Any subordinate mortgages originated (in lieu of private mortgage insurance) must have the same interest rate as the first mortgage and must be fixed-rate loans for the entire term of the loan;
5) "Stated income" loans are not acceptable;
6) "Option" loans, wherein the borrower has the option of paying less than a fully amortizing principal and interest payment, are not acceptable, nor are any loans that would result in "negative amortization";
7) "Interest-only" loans, wherein the borrower has the option of paying only accrued interest on the loan, are not acceptable;
8) Prepayment penalties on first mortgages or subordinate mortgages are not acceptable;
9) Balloon payments on first mortgages or subordinate mortgages are not acceptable;
10) Total points and fees on any mortgage loan cannot exceed 5% of the total loan amount, including any yield spread premiums;
11) Any mortgage loan that results in a debt/income ratio for housing expense (including principal and interest payments on the first mortgage and any subordinate mortgages, property taxes, property insurance, and condominium or homeowner association fees) that exceeds 32% or is less than 25% (i.e. total housing expense divided by gross household income); OR any mortgage loan that results in a Combined Debt/Income ratio that exceeds 50% is not allowable by the program.
12) The homebuyer is not allowed cash back at closing. Payment of any other debt at closing is not allowed.

Subordination Guidelines:

The County may, in its sole discretion, subordinate a second mortgage issued under its Program. Such subordinations, however, must comply with the County's subordination guidelines which may be amended from time to time.

1) The borrower may not take any cash out. (The payment of credit card debt is considered cash.)
2) The borrower may roll into the new first mortgage only reasonable and customary closing costs associated with the refinancing. (This does not include points paid to buy-down the interest rate, but does include expenses such as the appraisal, credit report, and title charges.)
3) The new first mortgage principal balance, not including closing costs discussed in line number two, cannot exceed the original first mortgage existing principal.
4) The borrower may refinance into a 15-year mortgage provided that they have the capacity to handle the higher payment. (Such situations will be reviewed on a case-by-case basis.)
5) The borrower must refinance into a fixed-rate mortgage.
6) The first mortgage lender must escrow taxes and insurance if the lender had been doing so prior to refinancing.
7) The County will not subordinate to home equity or reverse mortgage loans.

APPLICATION AND CLOSING PROCESS

Qualification

- Submit application with all required documentation. Note that the program evaluates HOUSEHOLD income, which includes the income of all household members that are 18+ years old. Include all members who will live in the home, regardless of whether they will be listed on any mortgage or deed.
- County staff will review complete applications; review will begin once all documents are submitted.
- If applicant meets the program requirements, a QUALIFICATION letter will be issued to the Applicant.
- Once you have been <u>QUALIFIED</u>, you may submit an offer/contract to purchase the property.

Documentation needed before scheduling a closing:

- Documentation of Homebuyer Counseling from HUD-certified counselor, evidenced by documentation signed and dated buy a HUD-certified counselor.
- Copy of Homebuyer's First Mortgage Loan Application
- Copy of First Mortgage Lender's Loan Estimate *(Lenders: be aware of limitations described in applicant qualification letter; sale will not close unless financing complies with program requirements)*
- Copy of First Mortgage Lender's Commitment Letter
- Copy of your First Mortgage Lenders Appraisal
- Copy of First Mortgage Lender's Closing Disclosure *(Lenders: be aware of limitations described in applicant qualification letter; sale will not close unless financing complies with program requirements)*
- Copy of property/hazard insurance including Kane County as a mortgagee: "Kane County, by and through its Office of Community Reinvestment, its successors and/or assigns, 143 First Street, Batavia IL 60510"
- Copy of First Mortgage Lender's Title Commitment showing in Schedule B the mortgage from borrower to Kane County Office of Community Reinvestment, securing the principal amount of the loan

The County will perform a final underwriting based on first lender documentation to ensure that monthly payments will be within the allowable range and finalize the loan amount and loan documents. Kane County will then issue a Final Commitment Letter for the amount of the deferred loan and a clear to close.

Closing:

- Kane County will provide funds for the loan, and a Second Mortgage and Note for signature at the closing

General Requirements related to Income Determination

These overarching requirements include how to determine whose income to count, anticipate and verify income, and compare income to HUD income limits.

Determining Whose Income to Count - Income determination regulations require that income of all household members be included in the determination of (adjusted gross) income.

Anticipating Income - The regulations at 24 CFR 92.203(d)(1) require that, for the purpose of determining eligibility for assistance, **the County must project a household's income in the future**. To do so, a "snapshot" of the household's current circumstances is used to project future income. In general, the County assumes that today's circumstances will continue for the next 12 months, unless there is verifiable evidence to the contrary.

Verifying Income - The regulations at 24 CFR 92.203(a) require that the County determine income eligibility of applicants by examining source documents (such as wage statements or interest statements) as evidence of annual income. The County may develop its own verification procedures provided that it collects source documentation and that this documentation is sufficient for HUD to monitor program compliance.

Assessing Information - The County must assess all the facts underlying the income information collected. Below are some of the considerations it must take into account. The County should determine the basis on which employees are paid (hourly, weekly or monthly, and with or without overtime). An employee who gets paid "twice a month" may actually be paid either twice a month (24 times a year) or every two weeks (26 times a year). For applicants whose jobs provide steady employment (e.g., 40 hours a week, 52 weeks a year), it can be assumed that there will only be slight variations in the amount of earnings reflected in monthly or bi-weekly pay stubs. In such cases, three consecutive months' worth of income documentation is an appropriate amount upon which to base a projection of income over the following 12- month period. For those whose annual employment is less stable or does not conform to a twelve month schedule (e.g., seasonal laborers, construction workers, teachers), the County examines income documentation that covers the entire previous twelve-month period. Such workers can experience substantial variations in earned income over the course of a year. As such, an examination of three months' worth of income documentation may not provide an accurate basis upon which to project the applicant's income over the following 12 months. In addition to hourly earnings, the County must account for all earned income. In addition to the base salary, this will include annual cost of living adjustments (COLAs), bonuses, raises, and overtime pay. In the case of overtime, it is important to clarify whether overtime is sporadic or a predictable component of an employee's income. If it is determined that an applicant has earned and will continue to earn overtime pay on a regular basis, the County calculates the average amount of overtime pay earned by the applicant over the pay period the PJ is using to calculate income eligibility (3 months or 12 months). This average amount is then to be added to the total amount of projected earned income over the following 12-month period.

Comparing Annual Income to Published Income Limits - Once household and income information has been established and verified, the County must compare the information to the appropriate HUD income limits to determine if the household is eligible for participation in the Program. To determine eligibility, the County must use a copy of the most recent HUD income limits, adjusted for family size and by geographic area (county or metropolitan area). The income limits are updated annually and are available through HUD offices or on the Internet at www.hud.gov.

Determining Household Size - The income limits are adjusted by household size; therefore, one of the first steps in determining eligibility is to determine the size of the applicant household. Some households may include persons who are not considered as family members for the purposes of determining household size and income eligibility, including: Foster children; Foster adults; Live-in aides; and Children of live-in aides. These persons should not be counted as household members when determining household size, and their income, if any, is not included when calculating annual income. A child who is subject to a shared-custody agreement in which the child resides with the household at least 50 percent of the time can be counted in the household.

Timing of Income Certifications - All households that receive assistance must be income-eligible at the time assistance is provided. Generally, the Program permits income verification dated no earlier than six months prior to receipt of assistance. Households must qualify as low-income at the time of occupancy or at the time funds are invested, whichever is later.