

**Charles County
First Time Home Buyers
Settlement Expense Loan Program**

for

Designated Areas



**County "SELP"
Program Guidelines
& Procedures**

**December 1997
Revised April 2008**

**Supported by
Charles County Commissioners**

**Sponsored by
Housing Commission of Charles County, MD**

Administered by

**Department of Community Services
Housing & Community Development Division
8190 Port Tobacco Road
Port Tobacco, Maryland 20677
Phone 301-934-9305 Fax 301-934-5624**

**Visit our website at
www.charlescounty.org/cs/housing/**

Highlights of the
Charles County "SELP"

***First Time Home Buyers
Settlement Expense Loan Program***

This program is an effort to encourage first time home buyers to consider home ownership in existing residential communities in Charles County. The program is administered by Charles County Department of Community Services. Settlement expense loans up to \$6,000 are available to families whose income is at or below 100% of area median, adjusted for household size:

Household Size	1	2	3	4	5	6	7	8
Income Limit ¹	\$53,800	\$61,500	\$69,200	\$76,900	\$83,000	\$89,200	\$95,300	\$101,500

BUYER ELIGIBILITY

1. Meet Income Eligibility: 100% of area median, adjusted for household size.
2. First time home buyer (cannot have previously owned a dwelling within the last 3 years). Exceptions granted for separation, divorce, death of spouse or owner of substandard housing.
3. Qualify for a fixed rate mortgage with a Participating Lender. See Referral List.
4. Post purchase liquid assets cannot exceed 12% of gross annual household income.

PROPERTY CRITERIA

1. Existing dwelling that is owner occupied, occupied by buyer, or vacant. New construction is excluded.
2. Dwelling types: Single family detached, semi-detached, townhouse, condominium apartment.

SELP LOAN TERMS

1. SELP Loan Amount: Minimum \$1,000, Maximum \$6,000.
2. Buyer's minimum cash contribution: 5% of gross annual household income.
3. The loan will accrue interest of 5% in the first year only.
4. Loan principal and accrued interest are repayable upon the earlier to occur of sale, transfer, refinance, default on primary loan, or discontinuance of borrower occupancy.

¹Income limits revised March 14, 2008

First Time Home Buyers Settlement Expense Loan Program

PROGRAM GUIDELINES AND PROCEDURES

A. INTRODUCTION

The purpose of the Charles County First Time Home Buyers Settlement Expense Loan Program is to promote home ownership in the designated Revitalization Areas of the County.

In addition, the Charles County Settlement Expense Loan Program (SELP) provides direct financial assistance up to \$6,000 to qualified, low and moderate income first time home buyers in the designated Revitalization Areas to help with settlement expenses associated with home purchase. The loan will be evidenced by a second mortgage, repayment of which is deferred until such time as the property is resold, transferred, refinanced, or the buyer discontinues occupancy of it as a principal residence.

The program is supported by the Charles County Commissioners, and sponsored by the Housing Commission of Charles County. The program is administered and managed by the Charles County Department of Community Services, Housing & Community Development Division, 8190 Port Tobacco Road, Port Tobacco, Maryland 20677, telephone number 301-934-0136.

B. ELIGIBILITY

1. Income Limits - Eligibility is determined on the basis of anticipated annual household income on the day of closing, adjusted for household size. That income may not exceed 100% of the statistical area median income as published by the U. S. Department of Housing and Urban Development (HUD) adjusted for household income. Income limits are as follows:

<u>Household Size</u>	<u>Income Limit¹</u>	<u>Household Size</u>	<u>Income Limit</u>
1	\$53,800	5	\$83,000
2	\$61,500	6	\$89,200
3	\$69,200	7	\$95,300
4	\$76,900	8	\$101,500

2. Income must be calculated by adding all income from household members 18 years of age or older. The income of *full time* students is exempt with documentation of school enrollment. Child care expenses provided by a bonafide child care provider may be deducted from gross household income.
3. The borrower must be a home buyer who meets the mortgage loan requirements of a participating lender. A participating lender is a bank or mortgage bank which has applied to the County to process SELP loans and has received such authorization. Participating Lenders have entered into an agreement to abide by the SELP Program Guidelines and Procedures.

4. The borrower's after purchase assets (excluding IRAs, 401(k)s and similar penalty for early withdrawal retirement accounts) may not exceed 12% of the annual household income as adjusted by allowable exemptions (i.e, documented child care expenses and income of full-time students). Assets are determined in conformance with program guidelines (i.e., buildings, land, motor vehicles, boats, saving accounts, stocks, bonds, annuities, etc).
5. The borrower may not have owned a home in the past 3 years (prior to closing date of loan). An exception will be made for persons who became separated, divorced or widowed during the prior three years, and for owners of manufactured (trailer) housing or substandard housing.
6. The borrower may not own any other residential property.

C. PROPERTY CRITERIA

1. The property being purchased may be an existing single family detached or semi-detached dwelling; townhouse, or condominium apartment. New construction is excluded.
2. To avoid involuntary displacement of occupants, at the time of contract the property being purchased must be vacant, occupied by the seller, or occupied by the buyer in the transaction. The seller will be required to sign an Affidavit of Voluntary Sale at closing.
3. The purchase price of the home cannot exceed the appraised value.
4. Within 60 days of closing, the property must be occupied as the primary residence of the borrower.

D. LOAN TERMS

1. The first mortgage loan obtained by the purchaser must be a fixed rate loan; no ARMs are permitted.
2. The maximum direct SELP Loan is \$6,000; the minimum is \$1,000.
3. The minimum borrower cash contribution for down payment and closing costs is 5% of the annual household income (as adjusted), or an amount greater when required by the first mortgage lender. These must be documented borrowers' funds, not a gift or loan.
4. The SELP loan shall be recorded as a secured second mortgage on the property, when permitted by first mortgagee.
5. The home buyer may prepay the loan in whole or part at any time, with no penalty.
6. The loan will accrue interest of 5% in the first year, but no interest will accrue thereafter. Loan principal and accrued interest are repayable upon the earlier to occur of sale, transfer, refinance**, default on the primary loan, or discontinuance of borrower occupancy.

**Exceptions may be granted for refinancing for the purpose of rate reduction with no equity out.

E. ELIGIBLE SETTLEMENT EXPENSES

The following fees and expenses are eligible, in amounts acceptable to the Charles County Department of Community Services:

1. Fees or premiums for title examination and title insurance.
2. Reasonable fees for preparation of a deed, loan documents and settlement statement
3. Prepays of property taxes, hazard insurance, mortgage insurance, HOA or condominium fees and ground rent
4. Notary fees
5. Transfer and recordation taxes and fees
6. Loan discount points, and origination fees
7. Down payment, beyond the required minimum cash contribution specified.
8. Termite inspection fee
9. Location Survey
10. Property inspection for federal Housing Quality Standards.
11. Appraisal fee and credit report

F. RESPONSIBILITIES OF THE PARTIES

The Department of Community Services Housing & Community Development, primary lender, title Company, Realtors, and Charles County -- the secondary lender, must coordinate the SELP loan process. It is necessary to set time frames which accommodate the program requirements and also meet the deadlines of the parties. Understanding the roles and responsibilities of each of the parties will facilitate that process.

CHARLES COUNTY DEPARTMENT OF COMMUNITY SERVICES (DCS) HOUSING & COMMUNITY DEVELOPMENT LOAN PROCESSOR will:

1. Actively market and promote home ownership opportunities through SELP.
2. Refer prospective home buyers to the list of participation lenders.
3. Estimate the amount of SELP funds necessary, and reserve funds for closing for approved applicants.
4. During the first week of every month, prepare a monthly Request for Funds (RFF) from the County to cover settlements that are anticipated to close within the following 30 days.
5. Recommend SELP Loan approval by preparing the SELP loan file with documentation from the lender. The Department of Community Services, Chief of Housing & Community Development has the authority to *approve* the loan after review of all documentation and determination that all program requirements have been met.

6. Prepare the closing package for the Department of Community Services, Chief of Housing & Community Development review including a closing instructions letter along with the Second Mortgage, Promissory Note, Confirmation of Voluntary Sale letter and the SELP funds.
7. Confirm the borrower has moved into the property within 60 days after closing.
8. Complete a Monthly Activity Report by the 10th of the following month.
9. Provide standard documents to the participating lenders.
10. Review the documents, confirm borrower eligibility and compliance with program requirements, and approve SELP loan, within three business days of receipt of a complete SELP loan file from the participating lenders.
11. Monitor each SELP loan file, for program compliance and on the overall home ownership effort on a quarterly and annual basis.
12. Clarify areas of eligibility where the Program Guidelines do not address the specific circumstances of the borrower.

LENDER will:

1. Accept the loan application on the FNMA 1003 form, and will obtain additional information outlined on the *SELP Mortgage Application Addendum* from the applicant.
2. Qualify first mortgage and pre-qualify the SELP loan applicants simultaneously.
3. Not increase its application fee or charge a separate application fee for SELP borrowers. This is prohibited by the SELP program.
4. Submit a loan file with a Lender's Transmittal to the Department of Community Services for SELP loan processing. The file will contain: original signed SELP Mortgage Application Addendum and copies of the first mortgage application, contract of sale, appraisal, lender's good faith estimate, employment and deposit verifications and the underwriter's worksheet.
5. Confirm the estimated amount of the SELP Loan with the Department of Community Services.
6. Advise the title company that Charles County must be named on the hazard insurance. The mortgagee clause shall read: County Commissioners of Charles County, Maryland c/o Department of Community Services, 8190 Port Tobacco Road, Port Tobacco, Maryland 20677.
7. Complete a Lender's Participation Agreement with Charles County to abide by the Program Guidelines and Procedures.

THE TITLE COMPANY will:

1. Calculate the exact amount of the SELP Loan to fund the gap between the buyer's minimum contribution and the actual settlement cost up to a maximum of \$6,000.
2. Record the County's Second Mortgage in the Land Records of Charles County, Maryland.

3. Return the following executed documents to Charles County Department of Community Services:
 - a) Second Mortgage (certified copy)
 - b) Promissory Note (original)
 - c) Confirmation of Voluntary Sale Letter (original signed by Seller)
 - d) Completed Letter of Closing Instructions, countersigned
 - e) Settlement Sheet (HUD-1 or approved from)
 - f) Copy of hazard insurance certificate with the County Commissioners of Charles County named as mortgagee and loss payee
4. Refund any excess SELP Funds to the Department of Community Services along with a copy of the HUD-1 settlement sheet or other approved settlement sheet within three days of closing.

G. SELP LOAN FILE

1. The following documents will be submitted by the Department of Community Services Housing & Community Development Loan Processor to the Department of Community Services Chief of Housing & Community Development for SELP approval: (Source: Lender)
 - a) First Mortgage Loan Application (FNMA 1003-typed)
 - b) SELP Mortgage Application Addendum with original signatures of the applicant. It is recommended that the borrower or loan officer complete the first page of the SELP Mortgage Application Addendum.
 - c) Copy of Contract of Sale with all addenda.
 - d) First two pages of the Uniform Residential Appraisal Report.
 - e) Lender's Good Faith Estimate
 - f) Employment and deposit verifications
 - g) Underwriter's Worksheet
2. All files must be complete when submitted to the Department of Community Services Chief of Housing & Community Development.
3. Files are to be submitted to the Department of Community Services Chief of Housing & Community Development at least seven (7) business days before closing date.
4. Short notice cases should be an exception and still require submission of the file to Department of Community Services Chief of Housing & Community Development a minimum of three (3) business days before closing date.
5. A letter or report confirming the borrower has moved into the property must be submitted by Department of Community Services Loan Processor for the file within 90 days after closing. A borrower has 60 days to occupy the dwelling. The letter must state how confirmation was made: site visit, telephone, or mail response.

H. UNDERWRITING GUIDELINES RE: Income Qualification, Household Composition or Loan Ratios

The purpose of these guidelines is to assist the Department of Community Services Housing & Community Development and lenders in understanding some of the issues that may arise in the determination of eligibility for a SELP loan borrower and the required documentation for the file. The intent is to clarify complex or unusual situations that arise, and to apply policies consistently throughout the County.

1. Income Calculations

- a) The optimum method of "annualizing" current income is to multiply the gross salary by the number of pay periods (weekly salary x 52; bi-weekly salary x 26; or the semi-monthly salary x 24). Use this method when the borrower receives the same salary on each paycheck and there is no overtime.
- b) When the borrower receives an hourly wage, multiply the hourly wage by the number of hours normally worked per week, then by 52 weeks.
- c) When the borrower receives overtime, use the last three (3) months of overtime to calculate that income. If this does not accurately reflect the annual overtime figure, such as overtime which is earned only during a peak season, then annualize the overtime from the entire prior year, or base overtime on a statement from the employer.

One technique of annualizing hourly and/or overtime compensation is to divide the "year to date" gross by the number of weeks or months which have transpired, and then to multiply by 52 weeks or 12 months. This works best near the middle or end of the calendar year.

- d) Analyze last year's income to determine the amount of income anticipated during the upcoming twelve months when income cannot be clearly anticipated, such as for a self-employed individual.
- e) Bonuses from employers count as household income. If the employee usually receives a bonus during a work year, then the bonus amount received in prior years should be used to calculate the anticipated bonus in the next year. If the employee does not know if there will be a bonus, or bonuses have been sporadic, bonus income need not be included in the anticipated income calculation.

2. All household members over the age 18 must have documentation of income or should provide information regarding reasons for lack of income. For example: a housewife (with young children) should note "housewife" where employment information is requested on the application. Full time students should present evidence of full time registration at college. Other plausible reasons as to why an adult member of the household has no income must be explained in a memo to the file and documented.

3. Any changes or cross outs on the SELP application regarding income calculations should be initialed by the person making those changes.

4. Households must be income eligible on the day of settlement. If income or household composition changes between the time of SELP application and closing (due to cost of living increase or raise or new job, or someone leaves the household thereby changing family size, or an applicant receives a large sum of cash assets, etc.) the borrower may become ineligible for the SELP loan. This may occur occasionally very close to settlement. It is the lender responsibility to so inform the borrower. It is recommended the borrower be advised in writing if there is any concern that income or family composition is in flux, and/or

if family income is close to the allowed maximum.

5. If more than 90 days elapse between SELP application and closing, the borrower must provide two most recent pay stubs to verify income is still within the eligible range at closing.
6. If a child or children reside in a household and are not the natural children of one of the borrowers, for instance, grandchildren cared for by a grandparent, then documentation of legal custody must be provided in order to count those dependents as part of the household. A court order or verification from the Department of Social Services will be acceptable. A notarized letter will only be allowed when circumstances dictate that no other documentation is possible.
7. If there are dependents listed as household members on the loan application, but those same dependents are not listed on latest federal income tax return, a reasonable explanation must be provided and noted in the file. This might occur, for instance, by agreement of divorced parties whereby parents share custody, and alternate claiming the child as a dependent. This type of agreement or arrangement must be documented.
8. In order for a borrower to qualify for a SELP loan, the borrower must qualify for a fixed rate loan from the primary mortgage without the benefit of a co-signer.

I. POST CLOSING

1. The loan is evidenced by a Second Mortgage, recorded in the land records of Charles County, and by a Promissory Note signed by the Borrowers.
2. The SELP loan accrues 5% interest in the first year only. Thereafter, no interest accrues on the loan.
3. The loan becomes fully repayable upon the occurrence of any of the following:
 - [a] Discontinuance of occupancy of the property as the borrower's primary residence; or
 - [b] Sale or transfer of the property; or
 - [c] Refinance of the property (including further encumbering) without the consent of the County.
4. Requests for subordination of the SELP loan to a new first mortgage are evaluated by Charles County Department of Community Services. Subordination is recommended only in instances where the refinance is for the purpose of obtaining an equivalent first mortgage with a lower interest rate which will in turn lower monthly payments for the borrower, or to convert from an adjustable rate loan to a fixed rate loan.

Requests for SELP subordination to a new, increased first mortgage whereby the borrower is rolling consumer debt into the first mortgage, or is attempting to take cash out, will not receive a positive recommendation.

5. Requests to permit an additional encumbrance on the property which will be subordinate to the County's Second Mortgage, will be evaluated on the basis of the aggregate loan to value which will result. The underlying tenet of the SELP program is to assist first time home buyers to achieve sustainable home ownership, and to accrue equity. If the resulting aggregation of loans will exceed 100% of the value of the property, the Charles County Department of Community Services will decline to recommend that an additional encumbrance on the property be permitted.