

Pathways to Homeownership (Pathways) Soft Second Program Description and Guidelines

Program Objectives:

Fulfill the National Objective of low to moderate income (LMI), Provide assistance for “first time” homebuyers with incomes at or below 80% HUD AMI to purchase one-unit family homes. Increase homeownership for low-to-moderate homebuyers.

Eligible Activity:

Homeowner Assistance

CDBG Assistance:

CDBG Assistance to be given in the following order: A Soft Second Loan of 20% of the purchase price up to \$55,000 per household and up to \$5,000 for Closing Costs for a total of up to \$60,000.

CDBG Investment:

CDBG funds will primarily be invested as deferred 0% interest rate loan to make market rate financing more affordable for families of 80% HUD area median income (AMI) and below. The investment will be made in the form of a soft second loan to cover the affordability gap between the sales price and the price affordable to the qualifying borrower. Part of the allocated CDBG funds will be offered to the qualifying borrower in the form of a grant to cover closing costs and required prepaid items related to the closing of the first mortgage loan.

Borrower Investment:

Borrower(s) will be required to invest the greater of 1% of the purchase or \$1500. This contribution must be the borrower’s own funds and cannot be a gift or lender/seller credit.

Maximum Liquidity:

Homebuyer’s cash and liquid assets must not be greater than 6 months of the monthly Principal & Interest plus Taxes, Insurance, HOA, etc. after down payment and out of pocket closing costs are paid. Any excess will reduce the Closing Cost Assistance. An asset is liquid if it can be easily converted to cash, such as checking and savings accounts and CDs.

Maximum Borrower Investment:

Greater of 10% of Purchase Price or \$10,000. This includes the borrower’s minimum investment.

Eligible Parishes:

Properties must be located in one of the designated parishes affected by Hurricane Laura (DR-4559), Hurricane Delta (DR-4577), Hurricane Ida (DR-4611) as follows:

Acadia, Allen, Beauregard, Ascension, Assumption, Caddo, Calcasieu, Cameron, East Baton Rouge, East Feliciana, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Morehouse, Natchitoches, Orleans, Ouachita,

Plaquemines, Pointe Coupee, Rapides, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John, St. Landry St. Martin, St. Mary, St. Tammany, Tangipahoa, Terrebonne, Union, Washington, West Baton Rouge, West Feliciana, Vermilion, Vernon and Winn.

Eligible Properties:

Properties cannot be located in a Special Flood Hazard Area (SFHA). **Zones A, AO, AH, A1-A30, AE, A99, AR, AR/AE, AR/AO, AR/A1-30, AR/A, V, VE, V1-V30.** New and existing one-unit dwellings located in the eligible parishes.

Documents Required to Reserve Funds:

Borrower must present a legally binding purchase agreement with application for funds when applying for assistance under the program. Properties must be essentially "move in" ready when the purchase agreement is executed. Application date is based on the date that a complete application is received by an LHC approved lender. Lenders will reserve the loan funds in LHC's reservation system. All applicants will be served on a "first come, first served" basis.

Maximum Purchase Price:

The Maximum Permissible Purchase Price shall not exceed the FHA loan limits.

Mortgage Rate of First:

SMC Market Rate GNMA / Conventional or Lakeview/ Premier GNMA / Conventional rates posted daily

Mortgage Loan:

30 year fixed rate

Soft Second Loan Amount:

A Soft Second Loan equal to 20% of the purchase price up to but not exceeding \$55,000 and up to a \$5,000 grant for closing costs will be given to all qualified borrowers, with grand total assistance up to \$60,000 per household.

- The purpose of the soft second mortgage is to cover the affordability gap between the maximum affordable first mortgage financing for which the homebuyer qualifies and the purchase price of the home.
- The CDBG soft second loan is on a "need basis" only.

Soft Second Loan Repayment:

Repayment of the principal amount of the CDBG soft second loan shall be deferred until the loan is extinguished upon sale or refinance. The CDBG Second Loan will be forgiven over a ten (10) year period, as long as the borrower(s) occupies the property as their primary residence, at a rate of 1/120 each month. Within the 10-year compliance period, the balance of the Soft Second Loan is due upon sale or refinance.

Soft Second Loan Interest:

The annual percentage rate of interest on the CDBG funded loan rate shall be zero (0%) percent. LHC will review all first mortgage lender fees to insure that they are consistent with standard fees charged in the market for FHA/VA/RD, Fannie Mae and Freddie 30-year fixed rate mortgage loan products.

Closing Cost Loan Amount:

Up to \$5,000 loan for closing costs will be given to all qualified borrowers in the form of a grant.

- Part of the allocation of CDBG funds will be offered as a loan to cover "reasonable" closing costs related to the mortgage loan and required prepaid items, such as insurance and taxes related to the closing of the first mortgage loan. All homebuyers will be eligible to receive up to \$5,000 but may not exceed those approved by LHC. The Closing Cost Assistance must be clearly identified on the Closing Disclosure as "CDBG Closing Cost Assistance".

Program Administrator and Compliance:

Louisiana Housing Corporation
2415 Quail Drive
Baton Rouge, LA 70808
Attn: Single Family Department

CDBG Assistance to Borrower at Closing:

The Originating Lender will advance the Second Mortgage Assistance at loan closing and it will be reimbursed by Louisiana Housing Corporation after the loan is purchased and post-closing completed by LHC.

First Mortgage Loan Type:

CDBG funds shall only be leveraged with a first (1st) mortgage loan originated under one of LHC's Market Rate or Premier Program loans. The 1st mortgage loans will be 30-year fixed interest rate loans with no prepayment penalties or fees. Lenders may not charge origination or discount fees.

- Homebuyers must be able to qualify for a FHA/VA, Rural Development, or Conventional (Fannie Mae or Freddie) first mortgage loan product. Manual underwriting is not allowed. Borrower(s) must have three credit scores to qualify.
- Credit Score: Minimum 640 credit score

Ratios:

Front-End Ratio (PITI) not less than 28% or greater than 33%. Back-end Ratio (DTI) which includes all debts using conforming loan program guidelines cannot be greater than 48%.

- On an average monthly basis, the estimate of the sum of the applicant's payments for mortgage principal and interest, insurance, real estate taxes, HOA fees, and other recurring homeownership costs must not be less than 28% or exceed the sum of 33% of the applicant's adjusted income and any subsidy that will be available for such payments (e.g., Section 8 HAP funds, etc.). The backend ratio may not be higher than 48% of the homebuyer's gross income.
- Household income is projected on an annual basis to determine qualifying income. "Grossed up" non-taxable income is not used for LHC compliance qualifying purposes.

Second Mortgage Loan Payee:

Second Mortgage will be made payable to Louisiana Housing Corporation.

Closing Costs and Prepaid Items Assistance:

Closing Costs Assistance **grant** limit is up to \$5,000. The \$5,000 can include funding for pre-pays (homeowner insurance, flood insurance, mortgage insurance premium, taxes, etc.), closing cost to include title company fees, and other customary costs associated with closing a real estate transaction. Advance payments for Homeowners, Flood, MIP, Taxes, etc. are limited to 14 months of premiums.

Eligible Borrowers:

First-time homebuyers with annual household incomes at or below 80% Area Median Income (per Metropolitan Statistical Area Data) who are purchasing a qualified, principal residence in designated disaster parishes.

A first-time homebuyer is an individual who meets any one of the following criteria:

- An individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase of the property. This includes a spouse (if either meets the above test, they are considered first-time homebuyers).
- A single parent who has only owned with a former spouse while married.
- An individual who is a displaced homemaker and has only owned with a spouse.

Duplication of Benefits:

Homebuyers who have already received a CDBG soft second loan through LHC/OCD or any form of housing incentive payment from the Road HOME or Restore LA Housing Assistance Payment Program are not eligible to receive additional financial assistance from this program.

Household Income Limits:

Households up to 80% HUD area median income

Insurance Requirements:

Properties must be insured with Flood and Standard Homeowner's Insurance that covers wind/hail damage. Coverage must equal at least the total of the first and second mortgage original amount. Insurance costs must be escrowed into monthly payments. The lender is required to submit proof of the mortgagee clause listing LHC as the 2nd lien holder on all policies and must be received prior to loan closing. LHC's mortgagee clause: Louisiana Housing Corporation, its successors and assigns as their interest may appear.

Physical Standard/Inspections:

All properties must meet Parish Building Code requirements, Zoning Code requirements and the physical standards and inspection procedures of the FHA/VA/RD or Conventional loan (Fannie Mae or Freddie) mortgage loan product associated with the First Mortgage Loan. All properties must pass a Housing Quality Standards (HQS) inspection and will be completed by internal LHC staff.

- *HQS inspections may take two (2) weeks to receive, lenders should factor this timeline into their closed loan delivery timeline.

Environmental Review Requirement:

All properties must pass an environmental review. The review will be completed by internal LHC Staff and usually takes about 10 working days.

Environmental Documents Required on Every File:

- Determination Categorical Exclusion Not Subject to 58.5
- Environmental Review for Activity/Project that is Exempt or
- Categorically Excluded Not Subject to section 58.5 Compliance Checklist for 24 CFR 58.6
- Louisiana Flood Map
- Coastal Barrier Map
- Civil Airport Map
- Civil Airport Runway Clear Zone Map
- Military Airport Map
- Military Airport Runway Clear Zone Map
- Insurance Quotes
- Flood Certification

Occupancy Requirements and Hardship:

Program recipients must occupy the purchased unit as their principal residence for at least 10 years in order to receive forgiveness of 2nd mortgage indebtedness. Failure to do so, without the prior written permission of LHC, will result in the soft second balance being immediately due and payable as described under the Second Mortgage Repayment above.

- There will be no waiver of the occupancy requirement during the first 60 months from date of purchase. After the first 60 months, LHC may exercise its right to waive the acceleration of payments due upon illness or death of homebuyer. Upon LHC’s determination the borrower meets the "hardship" test per supporting documents submitted and if the borrower has provided proof of continuous occupancy of the residence as primary residence, LHC may reduce the principal amount due according to the following schedule:

0-60 months	No waiver
61-84 months	50% of principal balance due
84 – 119 months:	30% of principal balance due
120 months:	Full forgiveness of debt

Homebuyer Education:

All eligible homebuyers must complete a Homeownership Education class that meets the National Industry Standards. The homebuyer can attend class through a HUD approved counseling agency or through an online course such as eHome America, etc. Borrowers must furnish a copy of their certificate upon completion.

Approved Lenders:

All LHC approved lenders that have completed a LHC Soft Second training.

Monitoring/Compliance:

LHC will conduct underwriting and compliance review of each loan prior to closing and will monitor and process collection of repayments of CDBG Fund investments on a per loan basis. LHC will complete & provide all reporting requirements as requested by OCD.

- Loan Repayments: Subject to the terms of the agreement with OCD, repayments of CDBG Funds or the recapture of CDBG Funds on each soft second mortgage will be reverted back to OCD.
- Annual Compliance: The borrower must provide, on an annual basis, the following documents for the term of the Soft Second Loan:
 1. Proof of Homestead Exemption
 2. Homeowners Insurance Policy
 3. Current Electric Bill
- LHC will monitor each loan for a 10-year period beginning with the date of the mortgage note.

Lender Profit, Requirements and Timing:

Lenders will register the 1st mortgage loan in LHC’s reservation system using LHC Pathway to Homeownership Program through Lakeview/ Bayview or Standard Mortgage Corporation.

A full compliance package must be submitted to LHC for review and approval prior to closing.

- The Lender is not allowed to charge origination or discount fees on the 1st mortgage loan and will be allowed to charge other fees that are deemed reasonable and customary.
- Total Lender Compensation is 2% SRP for each loan sold to SMC or Lakeview/Bayview. Title Company can charge a flat fee on the soft second mortgages for title services, as per state mandated fee schedules. No other fees will be allowed on the Soft Second Mortgage Loans. This fee must be disclosed on the Lending Disclosure & Closing Disclosure.

Deadlines:

SMC

Compliance Package must be delivered within 15 days from date of reservation. Closed loan delivered to SMC within 45 days and purchased within 70 days from reservation.

Lakeview

Compliance package must be delivered within 15 days from date of reservation. Closed loan must be delivered and purchased within 60 days from reservation.

Fees:

SMC		LAKEVIEW/BAYVIEW	
Compliance Fee	\$75	Compliance Fee	\$75
Document Review Fee	\$500	Funding Fee	\$400
Flood Certification Fee	\$14.50	Flood Certification Fee	\$10
Tax Service Fee	\$91	Tax Service Fee	\$75
Wire Fee	\$40/ Two Wires	Wire Fee	\$40/ Two Wires
Extension Fee	\$375 (If Applicable)	Extension Fee	15 days 0.1250%, 30 days 0.2500%, 45 days 0.3750% (if applicable)

Legal Documents:

The lender will package and deliver the 1st mortgage loan to LHC's master servicer, Standard Mortgage Corporation or Lakeview/ Bayview for purchase.

- LHC will provide the lender or title company the Second Mortgage Promissory Note, Second Mortgage Instrument and Closing Cost Gift Letter for the grant that will need to be executed at the time of closing.
- Within 30 days of closing the lender or its designated title company will deliver the following Soft Second Mortgage Loan documents directly to LHC:
 1. Original Second Mortgage Note
 2. Original Closing Cost Gift Letter
 3. Recorded Certified True Copy of Second Mortgage
 4. Original Exhibits executed at closing
 5. Second mortgage title policy

Correct mailing address is:

***Louisiana Housing Corporation,
2415 Quail Drive
Baton Rouge, LA 70808
Attention: Single Family Department***

Requesting Closing Cost:

Lenders are required to submit to LHC the completed Exhibit Assistance: E, Program Requisition Form - Wiring Instructions along with the Closing Disclosure 24 hours prior to the loan being closed requesting the Closing Costs Assistance to be wired to the closing table with the cutoff being 12:00 PM.