

# Commonwealth of Virginia

## HOME Program-Underwriting Requirements Policy

Over the past year and half, there have been many changes and new implementations to the HOME program that have been required by HUD. DHCD has adopted the following new underwriting guidelines along with documentation with regards to subsidy layering review, debt to income ratios, credit criteria, and budgeting.

### **Subsidy Layering Review**

The purpose of subsidy layering review is to make sure that no more subsidy funds are being invested than is necessary. DHCD has developed a Subsidy Layering Review Worksheet that Subreceptients must conduct prior to committing grant funds. The worksheet will capture all of the required information pertinent to the homebuyer's grant request such as debt to income ratios, buyer contribution, down payment, asset level, and the data requested in the Subsidy Layering Review section of the form. The form must be signed and dated by an authorized official of the subreceptient.

### **Debt to Income Ratios**

Recently, FHA has changed their housing and debt to income ratios to 29%/41% down from 33%/43%. At this time, DHCD will continue to implement the current housing and debt to income ratios of 33%/43% for the DPA projects we provide assistance for. DHCD will make exceptions to the debt to income ratio not to exceed **45%** if the monthly payments on the following debts are followed and documented in the file:

- Auto Loans - (except if there is less than 9 months left to pay off)
- Student Loans - (except if there is less than 9 months left to pay off)
- Personal Loans (except if there is less than 9 months left to pay off)
- Charge Cards - minimum required payments only.
- Child Support - (except if there is less than 9 months left to pay off)
- Alimony - (except if there is less than 9 months left to pay off)
- Federal/State Tax Lien Repayment Schedules - (if less than 9 months not calculated)

### **Credit Criteria**

The purpose of credit criteria is to make sure that applicants are not over extending themselves and are maintaining a good credit history, and a solid track record of timely payments. Therefore, DHCD has adopted the following credit criteria as it relates to home purchase:

### **Credit History**

- Applicant must show a good credit history with at least 2 to 3 tradelines open and current.
- If applicant has no credit history, then you can look at 3 alternative credit options, such as telephone bill, cable bill, auto insurance, cell phone, internet service, and utility services. These companies will generally issue a credit reference letter.

### **Bankruptcy, Foreclosure and/or Deed-in Lieu**

- Bankruptcy must be discharged for 3 years from the discharge date
- Foreclosure and/or Deed-in Lieu of foreclosure must not have been within the last 3 years, and the applicant must have established a good credit history since the foreclosure and/or bankruptcy.

### **Collections, Judgments and Federal Debts**

- Collection accounts totaling a \$1,000 or more must be paid in full prior to closing, and evidence must be provided as proof of payment.
- All judgments must be paid in full regardless of amount prior to closing, and evidence must be provided as proof of payment.
- Any delinquent **federal debt** such as student loan, tax liens, etc. will not be eligible for down payment assistance.

### **Monthly Spending Plan**

As part of the homebuying process, borrowers should know where their money is going each and every month. DHCD will now require each project to have the homebuyer complete a monthly spending plan to assess their spending habits, and make sure that they are not spending more than what they bring home. Subrecipients may use the current VHDA spending plan or the one developed by DHCD, and it must be signed by the homebuyer and an authorized official of the subrecipient or whoever assisted with the spending plan.

### **Subsidy Certification of Federal Assistance**

This certification is to acknowledge that the homebuyer has disclosed all sources of governmental assistance that has been provided in conjunction with their closing. The settlement statement (HUD-1) should reference all sources of federal assistance that was made available to facilitate the closing of the purchase of their home. In addition, should other governmental assistance be sought during the period of affordability, the homebuyer agrees to notify DHCD of such a request. This form must be signed and dated by the homebuyer, and returned with the completion documents after closing.

## **New Documentation**

As part of the new underwriting policy, DHCD will need the additional documentation with the project set-up packages and they must be dated within 90 days of closing:

- \* 3 Months of most recent bank statements and/or most recent Verification of Deposit,**
- \*2 years Federal Tax Returns w/W2,**
- \*3 years of Tax Returns for the Self-Employed with the appropriate attached schedules,**
- \*Monthly Spending Plan with a positive residual at month end, and a**
- \*HOME Subsidy Layering Worksheet**