Relaunch of the Arkansas Dream Downpayment Initiative (ADDI)
Welcome & Introductions

Introduction
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Welcome
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Website

More Resources: www.ADFA.Arkansas.gov

Scroll down to

Additional Materials:
- MCC Calculator
- Marketing (Flyers)
- Program Guidelines
- Other Training Materials
New ADDI Documents

Lender Portal: www.adfa.mitas.com/lenderportal

New Sources Location & Access:
- Lender Program Guidelines
- Training PowerPoint Presentations
- New ADDI Forms
ADDI Timeline

Intended to help lenders understand the Process Timeline for ADDI, a checklist to follow along...

<table>
<thead>
<tr>
<th>HELPFUL ADDI TIMELINE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRE-QUALIFICATION (PRE-RESERVATION)</strong></td>
</tr>
<tr>
<td>- ADDI Lender Form A: Buyer Pre-Qualification Form (ADFA ADDI Feasibility Tool) OPTIONAL, IF NEEDED</td>
</tr>
<tr>
<td><strong>COMPLIANCE REVIEW (PRE-CLOSING)</strong></td>
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<tr>
<td>- ADDI Pre-Closing Checklist (completed entirely)</td>
</tr>
<tr>
<td>- ADDI Homebuyer Agreement (signed by Borrowers, and notarized)</td>
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<tr>
<td>- Typed Final Uniform Residential Loan Application (Unsigned)</td>
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<tr>
<td>- AUS Findings (DU, LPA, GUS: Approve/Eligible OR Accepted Recommendation only)</td>
</tr>
<tr>
<td>- Borrower’s Forms (must be signed by Borrowers):</td>
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<tr>
<td>- Borrower Form A: Household Composition Form (one must be completed per household)</td>
</tr>
<tr>
<td>- Borrower Form B: Income/Asset Checklist (one must be completed by each household member 18yo +)</td>
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<tr>
<td>- Lender’s Forms (must be completed entirely by MLO):</td>
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<tr>
<td>- ADDI Lender Form B: (Initial Buyer Underwriting Form)</td>
</tr>
<tr>
<td>- Income Verification (if applicable, one per each household member 18yo +):</td>
</tr>
<tr>
<td>- Latest Federal Tax Returns &amp; W-2’s (signed and dated by Borrowers)</td>
</tr>
<tr>
<td>- Paystubs (two-months’ worth)</td>
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<tr>
<td>- Bank Accounts Monthly Statements (two-months’ worth)</td>
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<tr>
<td>- Any supporting documentation checked “yes” under ADDI Borrower Form B (Section A &amp; B)</td>
</tr>
<tr>
<td>- Real Estate Contract</td>
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<tr>
<td>- ADDI Seller Notice (must be completed, initialed, and signed by Seller)</td>
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</table>
**ADFA MERS Reminders**

- As always, First Mortgage Loans documents are closing under the “originating lender’s name” (ADFA Authorized Lender)
  - First Mortgage Loans must be transferred to ServiSolutions through the MERS System, as always, on a TOS/TOB Combo within 2 days of purchase – determined by ServiSolutions

- Subordinate Mortgage Loans documents are closing now under the “originating lender’s name” (ADFA Authorized Lender)
  - Both Notes – ADDI & DPA – must be properly endorsed to ADFA
  - Subordinate Mortgage must have its **own** MERS MIN #, separate from the 1st Mortgage
  - Subordinate Mortgage must be transferred through the MERS System
ADDI: Forgivable Subordinate Mortgage Reminders

- **Reservation.** Reserve/Rate Lock within 15-days prior to projected closing

- **Affordability.** Make sure to Disclose the Affordability Period to the Borrower based on ADDI Loan Amount
  - ADDI less than $15,000, 5-year Affordability Period
  - ADDI $15,000 up to $25,000, 10-year Affordability Period
  - Prorated forgiveness over Affordability Period (concurrent with loan term)

- **Changes**
  - Income Forms
  - Front-End Ratio – Min 25%, Max 33%
  - Minimum $500 Borrower Contribution
  - Inspection – UPCS & LBP Visual Assessment
  - Liquid Assets Documentation
  - Minimum 2 months PITI in reserves

- **Closing Date.** ADFA recommends setting a closing date only after receiving ADFA ADDI Compliance Approval
Part 1
Arkansas Dream Downpayment Initiative
About TDA

- Founded in 1998, focused on housing and community development programs
- Lead provider for HUD’s Community Compass technical assistance program
- Direct consulting services to state/local government, nonprofits, PHAs, etc.
  - Training, program design, underwriting, written agreements, monitoring...
  - Consolidated/Annual Action Planning, Fair Housing Planning, etc.
- Trainer
  Steve Lathom, Sr. Consultant
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  517.410.7527
Agenda & Goals

- Provide context on changes to ADDI
  - Responding to changing market conditions
  - Address concerns from periodic “compliance check-up”

- Highlight new/revised underwriting policies
  - More nuanced front-end ratio analysis
  - Consideration of buyer’s post-closing assets

- Demonstrations of ADDI Qualification & Compliance Tool
  - Excel workbook – guides underwriting & tests ADFA policy metrics

- Other administrative updates
▪ **Rule #1: Be an active participant**
  - Contribute to your learning
  - And that of your peers
▪ **Cellphones on silent or vibrate**
  - Take calls & sidebar conversations outside
▪ **Timing of breaks/lunch**
▪ **Restrooms & coffee**
▪ **Questions: Ask any time**
  - Inevitably, some won’t be answered today
Background – Regulatory Considerations

- ADDI is funded by the HOME Investment Partnerships Program (HOME)
  - Modeled after American Dream Downpayment Initiative
    - Set-aside within HOME last funded in 2007
  - HOME regulations continue to evolve and change
    - Including 2013 HOME Rule, 2018 HUD Notice on Homebuyer Program Policies (aka buyer underwriting), 2021 final implementation of Housing Counseling Rule

- ADFA has been engaged in reviewing and updating its HOME policies and procedures, including for ADDI
  - Prior program operation not fully addressing HUD’s latest guidance
  - Most changes intended to ensure/improve compliance
Background – Market

- Housing affordability – or lack thereof – has grown rapidly
- FHFA Housing Price Index, Arkansas, Q4 2019 thru Q4 2021 +32%
- Freddie Mac Mortgage Survey, 30-year fixed rate, +2.05% since January
  - $150K mortgage Jan 6 at 3.22% = Monthly P&I of $650
  - Same $150K mortgage May 5 at 5.27% = Monthly P&I $830 (+$180)
  - Or same $650 pmt at 5.27% yields mortgage of $117,500 ($32.5K less purchasing power)

All new news is old news happening to new people.

Malcolm Muggeridge
Key Policy Changes

- **Increase in available assistance** *(Why? Address market changes)*
  - ADDI may provide up to $25,000 in total assistance
  - Addressing down payment, closing costs, and “buy-down”
  - Previously limited to $10K, no buy-down available

- **Front-end ratio** *(Why? Address HUD regulatory requirements)*
  - Maximum of 33%
    - Ensure buyer not overleveraged, still within 45% total debt ratio
  - Minimum of 25%, but only if debt ratios limit purchasing power
    - Ensure buy down assistance is not indirectly subsidizing other debt

- **Buyer liquid assets** *(Why? Address HUD regulatory requirements)*
  - Over $25K, only ADDI eligible if buyer invests amount over toward purchase
  - Must have at least 2x monthly PITI payment remaining after buyer contribution
New Program Requirement

- ADDI Qualification & Compliance Tool
- Excel Workbook in 3 Parts
  - **Part A: Prequalification**
    - What can buyer afford, how much house can they shop for?
    - May not have all income documentation; guesstimates of tax/insurance
    - *Optional tool,* won’t be used in all cases
  - **Part B: Initial Buyer Underwriting**
    - Buyer has identified a specific house, have mostly complete documentation
    - Submitted to ADFA with commitment package
    - Used to make initial commitment
Part C: Final Underwriting/Closing Reconciliation

- Recalculates final ADDI once closing costs & prepaids are final
- Escrow amounts may shift slightly, so rechecks ratios
- Aligns closely to the Closing Disclosure/Settlement Statement
Using the Qualification & Feasibility Tool

- Excel file is locked to protect formulas from being over written
  - Open blank copy and “save as”

- Cell highlighting/color helps guide user
  - Yellow highlight = Data entry cell
  - Orange highlight = Data entry cell – special case
  - No highlight = Result calculated by formula, protected cell

- Line-by-line instructions to the right on each worksheet
  - Outside print area to save paper
Using the Qualification & Feasibility Tool

- Parts B & C tied together by programming
  - Several key numbers entered only in Part B
    - Purchase price, interest rate, term, loan amount
  - Other figures are “re-entered” in Part C
    - Because those items expected to shift between commitment and closing, e.g., cash from buyer at closing, closing costs and prepaids, prorations, etc.

- Expect small variances in calculations between tool and lender systems
  - Entry in whole dollars v. to the penny; rounding w/in formula “chain,” etc.
  - Most variations will be within +/-$1.00; if greater than +/-$3.00, likely entering different numbers or entering on wrong line
So Let’s Try it Out – See Handout

- Part B and Part C for “Ron and Jessie Brown”
- Closing Disclosure for same transaction
  - To show alignment, CD has QF Tool line numbers in red bold italics
- Ripped from the headlines – based on a real ADFA file
  - Identifying information removed
  - Income info changed and over-simplified
  - In everyday use, there will be more differences between Part B & C
Part 2

Arkansas Dream Downpayment Initiative
Welcome Back

Time to catch up?
Did other questions occur to you?
What’s on deck for remaining time?
  – Income documentation
  – Seller Notice & Inspection
  – Additional Q&A
Defining & Documenting Income

- HOME requires ADFA to select a specific regulatory income “definition” outlining what counts, what doesn’t
  - ADFA, and most HOME PJs, use the “Part 5” aka “Section 8” definition
  - Gross income used to determine income-eligibility, i.e., at/below 80% AMI
  - 2022 Limit, Little Rock MSA, 4-person household = $62,950 (eff. June 15, 2022)

- HOME regulation sets minimum documentation standards
  - “Examine at least 2 months of source documents…”
  - Always forward-looking projection for next 12 months
    - Eligibility not determined by last year’s W-2, tax return, etc.
High level overlap – trust *but verify*, estimating *future* income

But subtle variations “in the grey” areas

**Lender**

- Primary focus – Can the *borrower(s)* make the payment?
- If in doubt, error on *lower* estimate
  - Discount overtime or bonuses, don’t count likely wage increases, ignore interest, etc.
- Income history more important
- Sometimes other differences
  - May “gross up” un-taxed income sources like social security, etc.
Income Perspective – HOME Assistance

- Primary HOME regulatory focus – Is the *household* below the limit?
- If in doubt, error toward *higher* estimate
  - Assumes unemployment continues, includes “imputed” income from assets
  - Counts likely raises, bonuses, overtime, etc.
- History may *inform* forward looking estimate, but is not *determinative* for eligibility
- Beyond income eligibility, HOME does require underwriting standards
  - How much assistance does the buyer “need?” What’s reasonable?
  - So, for underwriting and determining ADDI assistance, will exclude:
    - Income/assets from non-purchasing household members (but not to get around bad credit)
    - Income known to end within 3 years; imputed income
New Income Forms

- **Household Composition Form**
  - Completed by Head of Household, discloses all household members
  - Collects needed demographic information required for HUD reporting

- **Income/Asset Checklist**
  - Completed by each adult, whether or not they are a “borrower”
  - Detailed questionnaire covering “all” potential income under Part 5 definition
    - Other than student status, any “YES” answer require documentation of that income/asset

- “For Lender/ADFA use only” final section of each form
  - Documents calculations and determinations
  - Aligns to Qualification and Feasibility Tool entries in Part B
Pulling the Package Together

- Sum and total household income & assets (QF Tool Line B-1)
- Show/explain adjustments for underwriting (QF Tool Lines B-2 & C-53)

- Sum and total individual’s income & assets
Hints on Income

- Gross amount matters
  - No adjustments for tax, insurance, other withholdings
- HUD requirement for 2 months of source documents is a **minimum**
- Sometimes we may need more
  - New job, less than 2 months paystubs available
    - Likely to get employer verification
  - Employment or overtime is seasonal, last 2 months of paystubs in isolation might under or overstate income
    - Might need to supplement with employer verification, longer history of source documents, review of prior year totals/W-2
Other Income Tips

- Not all source documents are monthly
  - Social Security notice typically issued annually
    - *Reconcile with bank statements, verifying direct deposits*
  - Some account statements might only be issued quarterly
    - *Technically meets “at least 2 months”*
- Look for undisclosed income
  - Gig economy (Uber, Lyft, Doordash, Shipt, etc.)
  - Multi-level marketing (Mary Kay, Amway, Pampered Chef, etc.)
- Remember to check imputed income from assets
  - If household assets exceed $5,000
  - Rarely will have practical effect, but still required
Additional Questions on Income???
Seller Notice

- New form, addresses prior regulatory gap in ADDI process
- Two key drivers
  - Uniform Relocation Act (URA) – cross-cutting federal requirements related to displacement of tenants & potentially coercive public acquisitions
    - Fortunately, has limited impact on ADDI
    - Notice of voluntary sale
    - Seller certification of owner-occupancy or prior vacancy
  - Inspection requirements
    - Especially related to lead-based paint
    - Implicit message to seller is “don’t fail the paint inspection”
Property Inspections

- From Lender standpoint, no particular changes here, but...
- ADFA implementing updated Inspection Checklist, incorporates
  - HUD UPCS deficiencies
  - State/local codes where applicable
  - Lead Based Paint Visual Assessment, applicable to pre-1978 homes

**One Chance Only! Failure** of LBP Visual Assessment →
- House will be *ineligible* for ADDI

- Other cases, ADFA will now pay for up to three total inspections
  - Seller has two chances to make needed repairs
  - Failure to pass → House ineligible for ADDI
Homebuyer Agreement

- Replaces prior “Notice to Homebuyer” & “Subsidy Agreement”
- HOME regs require binding “written agreement” btw ADFA and buyer
  - Must be cross-signed, no later than closing
  - Regulation outlines specific provisions that must be included
- Timing is a bit counterintuitive, but tries to thread the needle
  - **Buyer signs at application stage**/commitment submission
  - ADFA signs with commitment, prior to closing
  - Note/Mortgage signed at closing – will be dated differently than Agreement
  - Duration of Agreement & Note/Mortgage measured from “Project Completion”
    - **Not** from closing date
  - Post-closing **Notice of Project Completion from ADFA** will act as formal amendment to Agreement and Note
Next Steps

- New ADDI Reservations will start on: **June 1, 2022**

- Lender Program Guidelines, new additional location: 
  www.adfa.mitas.com/lenderportal

- Questions: 
  lender.questions@arkansas.gov
Final Questions & Wrap Up