

**City of Brooklyn Center**  
**Homebuyer Program Guidelines**

**Program Overview**

The City of Brooklyn Center offers a financial assistance program for homeownership funded by the Community Development Block Grant (CDBG) program. The Homebuyer Program provides financial assistance for low and moderate income households to become homeowners.

Administration of the Homebuyer Program and the functions and responsibilities shall be in compliance with the U.S. Department of Housing and Urban Development (HUD), CDBG regulations as well as all Federal, State and local nondiscrimination laws and with the rules and regulations governing Fair Housing and Equal Opportunity in housing and employment.

No family or individual shall be denied the equal opportunity to apply for or receive assistance under the First Time Homebuyer Program on the basis of race, color, gender, religion, creed, national origin, age, familial or marital status, handicap or disability, sexual orientation or reliance on public assistance.

**Program Goals**

The Homebuyer Program has the following two goals:

- a. Assist low and moderate income families to purchase homes within the City of Brooklyn Center by providing assistance with down payment, closing costs and mortgage principle reduction.
- b. Promote responsible home ownership

**Program Administration**

The program will be administered through Center for Energy and Environment.

**Program Policies**

**Financial Assistance**

The financial assistance is in the form of a loan of up to \$7,500, but no more than 10% of the purchase price. There is no interest on the loan and no payments are required. The loan is forgiven after 10 years and is reduced by 20% each year after the 5<sup>th</sup> year. If the home is sold, the title transferred or no longer owner-occupied within the first 10 years after the purchase date, then the remaining pro-rated amount will be become due.

The Financial Assistance may be used to:

1. Pay up to 50% of the amount the homebuyer is required to provide toward the down payment under the particular mortgage program they are utilizing. The homebuyer must contribute a minimum of \$1,000 of their own funds towards the down payment.
2. Pay up to 100% of the homebuyer's eligible closing costs. Borrowers are permitted to use program funds for interest rate buy downs if documentation is provided from the lender that shows the buy down is necessary to secure their primary mortgage.

3. Reduce the mortgage principal up to 10% of the purchase price, up to \$10,000. The applicant(s) housing ratio cannot exceed 35% of their gross monthly qualifying income. The housing ratio is calculated using the current year's projected income. Under certain circumstances, the HRA Executive Director may allow the DTI to exceed 35%.

The financial assistance will be provided at a minimum amount of \$5,000 and a maximum amount of \$10,000. In certain situations, the City may allow assistance in excess of the maximum at their discretion. The Center for Energy and Environment will review the applicant's verified income and assets, estimated closing costs, purchase agreement and lender's recommendations for financial assistance in compliance with uses described above. Lenders must provide a pre-approval letter indicating the maximum amount of financing the borrower would qualify for from the first mortgage lender.

The Center for Energy and Environment will verify an applicant's income and assets through written verifications as provided by either the lender or by the applicant. The City staff may re-verify income and asset information provided by the lender. The Center for Energy and Environment will calculate the applicant's gross annual income using lender verification or paystubs and recent tax returns or other qualifying verification as determined by City staff to ensure the applicant(s) qualifies as a low or moderate income household as required by CDBG regulations and to determine the maximum amount of assistance.

Financial assistance will be provided at the time of closing on the property with the following conditions:

1. Selected applicants must meet the requirements of the program and be eligible for the financial assistance throughout the entire application process.
2. The housing unit to be purchased and the purchase price must be accepted by the City as meeting the intent and requirements of the program.
3. The financial assistance provided by the program is in the form of a no-interest loan that is forgiven 10 years from the initial purchase date. If the house is sold, transferred or no longer the primary place of residence within that 10 year period, the loan will be repaid on a pro-rated basis.
4. The homebuyers must enter into a second mortgage and execute a Repayment Agreement with the City providing for repayment of the indebtedness 10 years from the initial purchase date or when the house is sold, transferred or no longer the primary place of residence, whichever occurs first.

### **Responsibilities Homebuyer**

The responsibilities of the prospective homebuyers are to:

1. Obtain mortgage pre-qualification for a 1st mortgage.
2. Submit a pre-application and mortgage pre-qualification to CEE.
3. Complete, sign and return the full application packet, authorization for release of information form and other certification and verification forms within the time frame specified.
4. First Time home buyers must register and attend the Home Stretch or Framework – Homebuyers workshop such as those offered by Community Action Partnership of Hennepin County (CAP-HC), Neighborhood Development Alliance (NeDA), NeighborWorks Home Partners,

or PRG Inc. More information about homebuyer education can be found online at: <http://www.hocmn.org/buyingahome/homebuyer-education/>. Classes must have been completed within 12 months prior to closing. The applicant will be provided with a certificate of attendance. A copy of this certificate should be forwarded to the lender and the CEE.

5. Select a real estate agent, if one is desired.
6. Select a dwelling in Brooklyn Center for purchase that is an eligible dwelling under the program.
7. Provide information throughout the process as required by the lender or the City staff.
8. Execute the purchase agreement that includes the Environmental Review addendum supplied by Hennepin County, and any subsequent Amendments.
9. Execute the lender's mortgage and related documents.
10. Execute the City's mortgage, loan agreement and promissory note.
11. Close on the property within the time frame specified in the purchase agreement.
12. Execute other required forms within the time frame specified or required.
13. Take occupancy of the dwelling within 30 days after closing, homestead the property and continue to occupy the dwelling as a principal place of residence.
14. Make principal, interest, property tax and insurance payments as required.
15. Reimburse the City in accordance with the City's mortgage, loan agreement, and promissory note should the first time homebuyer trigger repayment through sale, moving, transfer of ownership or foreclosure within 10 years or default on any other terms of these documents.

### **Responsibilities of the Lender**

The lender must:

1. Verify the prospective homebuyer's income and assets to determine that they meet the requirements of the program and submit a copy of the verification to the CEE. These copies must be submitted to the CEE as part of a completed application.
2. Compute the mortgage, down payment, mortgage payments and closing costs of acceptable loans approved by the program to determine the most cost-effective and appropriate form of financing for the homebuyer to use.
3. Provide a title search and review the documents.
4. Provide CEE with a pre-approval letter stating the maximum mortgage amount the applicant is approved for.
5. Provide CEE other verification materials as requested by the City.
6. Process a mortgage consistent with the program.

7. Meet all deadlines in a timely fashion, especially those that relate to the closing. **All documents must be completed at least 14 days prior to the closing and be delivered to CEE at least seven days before the closing.**
8. Appraise property to determine the loan-to-value ratio. Provide copy to CEE.

**Responsibilities of the City:**

The responsibilities of the HRA for the program are to:

1. Establish Program requirements.
2. Modify or terminate the program as may be appropriate or required.
3. Reimburse CEE as needed throughout the program year.

**Responsibilities of the Center for Energy and Environment:**

The responsibilities of the HRA for the program are to:

1. Administer the program.
2. Send applicants the application form, the authorization for release of information form and other certification and verification forms.
3. Review the application and other material for eligibility.
4. Establish the initial eligibility of participants via the information provided in the pre-application process. Full approval will be determined upon completion and submission of a full application and supporting documents.
5. Notify applicants when ineligible.
6. Direct prospective buyers to register for the homebuyer workshops and provide information and forms related to the program.
7. Provide liaison services involving the prospective buyer, lender and any real estate agent that might be involved in the transaction.
8. Review appraisal, purchase agreement, eligibility and mortgage for consistency with the program requirements.
9. Prepare and execute the city mortgage, loan agreement, and promissory note.
10. Provide financial assistance according to program guidelines to the applicant at the time of closing.
11. Service the city mortgage, loan agreement, and promissory note.
12. Request reimbursement to the City as needed.
13. Provided income documentation relating to CDBG reporting requirements.

## Pre-Application Process

At the time of application, applicants must provide CEE with the following information and meet the eligibility requirements:

1. Names and ages of all household members who will occupy the purchased property.
2. Address and telephone numbers.
3. Total gross annual income documentation.
4. Lease start and end dates.
5. Letter from lender indicating the amount of a home loan for which applicant is pre-qualified.
6. Authorization for release of information/data privacy signed by all adults in the household.

The information listed above will provide CEE sufficient information to determine if the applicant is eligible for the Program. The pre-application must be submitted **prior** to the execution of a purchase agreement. Applicants will be notified of their eligibility based on the information provided in the pre-application.

It is the responsibility of each applicant to ensure that the information is correct and that CEE receives his or her application.

## Eligibility Requirements

To be eligible to participate in the program, the applicant must meet the following requirements at the time of application and throughout the process up until closing.

1. Residency Requirements
  - a. Must work in Brooklyn Center
  - b. Have a family member who attends school in Brooklyn Center
  - c. Own a business in Brooklyn Center
  - d. Currently a resident of Brooklyn Center
2. Must not have a gross annual Income that exceeds the maximum income limits which are revised annually to reflect the current year's CDBG maximum income limits. Income is calculated using prior year tax returns and verified by most recent paystubs. For information on calculating income, please contact a Brooklyn Center Housing Specialist.

Household Size	Household Income			
	1	below \$21,000	\$21,001 - \$35,000	\$35,001 - \$52,850
2	below \$24,000	\$24,001 - \$48,000	\$48,001 - \$60,400	over \$60,400
3	below \$27,000	\$27,001 - \$54,000	\$54,001 - \$67,950	over \$67,950

<b>4</b>	below \$30,000	\$30,001 - \$60,000	\$60,001 - \$75,500	over \$75,500
<b>5</b>	below \$32,400	\$32,401 - \$64,800	\$64,801 - \$81,550	over \$81,550
<b>6</b>	below \$34,800	\$34,801 - \$69,600	\$69,601 - \$87,600	over \$87,600
<b>7</b>	below \$37,200	\$37,201 - \$74,400	\$74,401 - \$93,650	over \$93,650
<b>8</b>	below \$39,600	\$39,601 - \$79,200	\$79,200 - \$99,700	over \$99,700

3. Must not have gross assets exceeding \$10,000, excluding retirement savings.
4. Borrowers are required to invest at least \$1,000 of their own monies towards the purchase price of the home.
5. Must meet the requirements of a lender and qualify for a first mortgage.
6. Loan must be a fixed-rate, prime loan. No adjustable or balloon mortgages.
7. Must fulfill the program obligations in a timely manner and must remain eligible to participate based on the program requirements and those of the lender through the time of closing.
8. Must not have a previous loan through the City that ended in foreclosure or any other loan that ended in foreclosure within the previous five years.
9. Must not buy dwelling with a contract for deed.
10. Must not have ownership interest in another property at time of purchase.

**Denial of Eligibility**

CEE will review and verify all applications for eligibility. Those applicants not meeting the eligibility requirements will be sent a written notice explaining the reason(s) for denial of program participation.

Appeals regarding interpretation of eligibility requirements may be made in writing, first to the Deputy Director of Community Development for the city of Brooklyn Center, then to the Director of Community Development and then to the City Manager. Appeals that clearly do not meet eligibility requirements will not be considered.

**Eligible Dwellings**

To be eligible, the property must meet the following requirements:

1. Be located within the City of Brooklyn Center.
2. Be a single-family dwelling, a townhouse unit, duplex or a condominium unit.
3. Be a conforming use property as defined by the Brooklyn Center Zoning Ordinance.

## **Applicant Outreach**

The City and CEE will publicize and disseminate information to make known the availability of homeownership assistance on a regular basis through a variety of media and other suitable means. The availability of assistance will be communicated to other services providers, realtors and lenders in the community and advise them of the guidelines so that they can make proper referrals for the program. Realtors and lenders will be encouraged to provide additional services to eligible clients to ensure their successful utilization of the program.

## **Applicant Pool**

The applicant pool for the program shall consist of all those who have completed and returned to CEE a pre-application form, written verification from their lender of pre-approval and who have acknowledged that they will meet the eligibility requirements.

Funds will be available to the applicant pool on a first come, first serve basis. Eligible applicants will be approved for funding when they or their lender notify CEE of the applicant's approved purchase agreement and the full application packet is completed and returned. If funding is limited, and more than one applicant is at the purchasing stage, CEE will provide funding to the applicant who qualifies for the most preference points.

Preference points have been established to meet the goals of the City. Each preference category is worth one (1) point. The maximum points any one household could receive is five (5) points. Households with the highest point totals will be selected first. In the event of a tie, a drawing or lottery will be held to rank the applicants within each of the preference categories.

1. Applicant with dependents under age 18.
2. Applicant has lived in Brooklyn Center longer than 6 months prior to closing.
3. Head or co-head of household have primary, longer-term employment in Brooklyn Center.
4. Applicant has never owned a home (versus having owned a home over three years ago).

Approval from the applicant pool is tentative and conditional. Families selected for participation must fulfill the program obligations in a timely manner and must remain eligible to participate based on the program requirements and those of the lender through the time of closing.

## **Repayment of Assistance**

Repayment of the down payment assistance loan shall occur upon the earliest of:

1. Sale or transfer
2. The property ceases for any reason to be the homebuyer's principal place of residence.
3. Default on the mortgage with the City or any superior mortgage on the property.

Repayment of the loan shall be pro-rated, with the principal amount due reduced by 20% for each year after 5 years of the homeowner's tenancy in their Brooklyn Center home, as established by the loan

date on the filed mortgage with the HRA.

AGE OF LOAN	AMOUNT OF PRINCIPAL LOAN AMOUNT DUE
<b>0 - 1 year</b>	100 % of principal loan amount due
<b>1 - 2 year</b>	100 % of principal loan amount due
<b>2 - 3 years</b>	100 % of principal loan amount due
<b>3 - 4 years</b>	100 % of principal loan amount due
<b>4 - 5 years</b>	100 % of principal loan amount due
<b>5 - 6 years</b>	100 % of principal loan amount due
<b>6 - 7 years</b>	80% of principal loan amount due
<b>7 - 8 years</b>	60% of principal loan amount due
<b>8 - 9 years</b>	40% of principal loan amount due
<b>9 - 10 years</b>	20% of principal loan amount due
<b>10+ years</b>	0% due, Loan Fully forgiven

When a loan made by the City is paid in full or forgiven, a document satisfying the lien will be prepared by CEE, executed by the City Manager or his or her delegate and delivered to the borrower for recording. The borrower is responsible for the cost of recording the satisfaction. Contact the Community Development Department for more information about repayment of a City loan.

### **Subordination of Mortgages**

Brooklyn Center City loan recipients requesting subordination of the interest of the City in real property must submit a Subordination Request Form, the required supporting documentation, and a processing fee. Request should be made to CEE.

The following information must be submitted with the Subordination Request Form:

1. A typed letter dated and signed by the mortgagor, stating the reason for the requested subordination and the use of any equity being removed as part of the loan transaction.
2. A copy of the current appraisal (dated within six months of application) or other evidence of market value of the property that is acceptable to the HRA.
3. A copy of current title work (must indicate all debt against the property).
4. Explanation of remaining debts or liens with supporting documentation (i.e. most recent mortgage bill).
5. Estimated closing costs/settlement statement, where applicable.
6. A copy of the mortgagor's loan application.
7. Additional documentation may be required.

The City will subordinate its mortgage interest if all of the following conditions are met, to the extent that they are applicable:

1. Closing costs are reasonable. Generally this shall mean that the sum of all discount points, origination fees and lender ancillary fees shall not exceed 3% of the new first



- mortgage amount.
2. If the City believes that the payment terms of the refinance are within the financial means of the borrower.
  3. The overall value of superior debt must not be increased by more than 50%.
  4. Property taxes, if not escrowed by the superior mortgage holder, must be current.

The City will not subordinate to reverse mortgages. In most cases, interest-only loans or loans with interest-only options, revolving lines of credits or debt consolidation will not be allowed unless the City determines that an acceptable reason warrants this type of loan.

The City may approve other subordination requests not meeting the conditions above on a case-by-case basis that are clearly in the best interests of the City, where the security of the City loan remains acceptable and denial of the request will cause or contribute to a documented hardship on the part of the borrower.

Subordination requests will be processed by CEE staff, who will submit the request with a recommendation for action, to the City. The City Manager has the authority to grant a subordination request when, based on his or her discretion, the subordination is reasonable based on the criteria set forth in this Policy.

#### **Targeted Funding**

At various times, the City may target program funding for purchases in specific developments. Applicants purchasing in those developments would receive program funding prior to all other applications.

#### **Modification and Termination of Program**

The City may modify or terminate the program as it deems appropriate or as required by HUD. Once the City has provided financial assistance and the mortgage executed, financial assistance shall not be rescinded except as provide for in the executed HRA mortgage, loan agreement, and promissory note.

## APPENDIX A

### DEFINITIONS

**Acceptable Loans** – Portfolio Products, Freddie Mac, Fannie Mae, FHA, VA and ARM's that at a minimum are at a fixed rate for the first seven years.

**Applicant** – an individual or household submitting an application for a loan.

**Application** – The form used to request assistance for the City's First Time Homebuyer funds.

**ARM or Adjustable Rate Mortgage** – a mortgage that offers an initial rate that is fixed for a certain number of years of repayment; the rate then adjusts every year thereafter for the remaining life of the loan.

**CEE** – The Center for Energy and Environment, which administers the City's First Time Homebuyer Program.

**CDBG or Community Development Block Grant Program** – an annual entitlement program provided to the City of Brooklyn Center through the U. S. Department of Housing and Urban Development (HUD).

**City** – The City of Brooklyn Center.

**Clearance** – A lead based paint Certification that all lead issues have been remediated.

**Closing** – The consummation of the real estate transaction. The closing includes the delivery of a deed, financial adjustments the signing of notes, mortgages, and the disbursement of funds necessary to complete the sale and loan transaction.

**Closing Costs** – Those costs required by the lender to be paid by the buyer for various fees, credit report costs, insurance, etc., at the time of closing on a property.

**Conventional Mortgage** – A type of residential mortgage loan, usually from a bank or savings and loan association, with a fixed rate and term. It is repayable in fixed monthly payments over a period usually 30 – 40 years or less, secured by real property, and not insured by the Federal Housing Administration or guaranteed by the Veterans Administration.

**Down Payment** – A type of payment made by a homebuyer, indicating intention to purchase real estate offered for sale and obtain financing from a bank or mortgage company.

**Environmental Review** – The process of verifying that a project meets Federal, State and Local environmental standards. The environmental review process is required for all HUD-assisted projects to ensure that the proposed project does not negatively impact the surrounding environment and that the property site itself will not have an adverse environmental or health effect on end users. Hennepin County staff is responsible for the completion of the environmental review.

**Environmental Review Addendum** – An addendum to the purchase agreement that states an Environmental Review will be completed by Hennepin County prior to closing. The addendum must be a part of the original purchase agreement in order to be valid. **Environmental Reviews take approximately 45 days to be completed by Hennepin County.**

**Fannie Mae or Federal National Mortgage Association** – A privately owned and operated corporation that buys mortgages from such lenders as banks and savings and loans, packages and resells them on the open market.

**FHA or Federal Housing Administration** – A Federal agency that administers many loan programs, loan guarantee programs, and loan insurance programs designed to make more housing available.

**Gross Annual Income** – The gross annual Income of a household for the purposes of this program is defined for purposes of reporting under Internal Revenue Service Form 1040 for individual Federal annual income tax purposes as per 24 CFR 570.3 Income (1)(iii).

**Gross Assets** – The current market value of the following minus existing indebtedness: *(Typically, it does not include 401K funds, pensions or other deferred compensation funds.)*

1. Cash on hand.
2. Cash in checking accounts.
3. Cash in savings accounts, including accounts held in trust.
4. Investment securities (government bonds, municipal bonds).
5. Stocks.
6. Certificate of deposits and annuities.

**Guidelines** – The set of standards, criteria and specifications to be used in administering the program.

**Household** – All persons residing in one housing unit; which may include one or more families, a single person, a married couple or two or more unrelated persons.

**Housing Counselor** – A person who provides direct customer services, primarily to groups, individuals, households seeking information and assistance with housing issues.

**Housing Ratio** - The percentage of income that goes toward housing costs including mortgage principal and interest, mortgage insurance premium, hazard insurance premium, property taxes, and homeowners association dues (when applicable).

**HUD or U. S. Department of Housing and Urban Development** – The principal federal agency responsible for implementing certain federal housing and community development programs.

**Income** - The amount of money or its equivalent received during a period of time, in exchange for labor or services from the sale of goods or property, or as profit from financial investments.

**Lead Risk Assessment** – A report that describes the health risk assessment, management process, estimates of the costs of recovery and summaries of possible defensive measures required per HUD regulation CFR Part 35: Lead Based Paint Regulations.

**Lender** – Individual or firm that extends money to a borrower with the expectation of being repaid, usually with interest.

**Loan Estimate** – Document disclosing the approximate closing costs a mortgage applicant will pay at or before the mortgage settlement date.

**Low Income Household** – A household whose annual income does not exceed the low income limit as established by HUD with adjustments for smaller and larger families.

**Minnesota Housing** – The Minnesota Housing Finance Agency; a Minnesota State agency that administers a variety of first time homebuyer loan programs.

**Moderate Income Household** – A household whose annual income does not exceed 80 percent of the median income for the area, as determine by HUD with adjustments for smaller and larger families.

**Mortgage** – The conveyance of an interest in real property given as security for the payment of a loan.

**Principal Place of Residence** – To occupy the home as the primary residence on a permanent basis.

**Program** – The City’s First Time Homebuyer Program.

**Promissory Note** – A written instrument containing a promise by the signer to pay and agreed amount.

**Purchase Agreement** – An agreement between buyer and seller of real property, setting forth the price, and terms of the sale; Also known as a sales contract.

**Reducing the Mortgage Principal Amount** – A method of benefitting the buyer through the use of a portion or all of the HRA provided financial assistance to lower the mortgage principle amount. In effect, this assistance acts as a larger down payment and helps to reduce the monthly mortgage payments. The available amount of assistance is up to 10% of the purchase price to a maximum of \$7,500. The buyer’s housing ratio must be between 25% and 35%.

**Satisfaction of Mortgage** – A document releasing a mortgage lien, indicating the borrower has paid the debt in full.

**Second Mortgage** – A loan on a property that already has an existing mortgage (the first mortgage). The second mortgage is subordinate to the first.

**VA Loan** – Department of Veterans Affairs, providing below-market financing with no down payment to veterans of the U.S. Armed Services.