Homeowner Selection/ Mortgage Origination Policy Handbook

Template introduction

This handbook is the accompanying guide to assist you with completing and customizing policy templates that reflect your affiliate's unique requirements for homeowner selection and mortgage origination. They are written to reflect best practices and legal requirements for each of these topics.

Each policy document must be customized to your affiliate's operations, including applicable state laws.

- *Italicized* items represent best practices. We will provide guidance regarding why you might choose to adopt these as your policy, and suggest acceptable alternatives.
- Highlighted items can be changed or updated as you see fit.
- All other items represent HFHI policy or legal mandates. We will provide you with the reasons why they cannot be changed.
- Each item reference is in the format of (__).

Customization notes

This template was designed to be easily adapted for your affiliate's needs. By following the steps below, you will be able to quickly put this document to use in your operations.

1. UPDATE THE COVER WITH YOUR LOGO

The global Habitat logo on the cover is a separate image from the rest of the cover. To replace it with your affiliate logo:

- In Microsoft Word, right-click (or use CTRL+click) on the Habitat logo. (Make sure you are clicking on the logo and not the main cover image.)
- In the drop-down menu that appears, select "Change picture."
- Find the image file of your affiliate logo in white (PNG files work best for this application), and click "insert."
- Your logo should replace the global Habitat logo.

2. REVIEW AND UPDATE ALL HIGHLIGHTED AREAS

Highlighted items can be customized as you see fit. Remember to remove the highlight only after you have reviewed or updated the information.

3. INSERT INFORMATION IN ALL BRACKETED FIELDS

There are a few instances where you must insert information specific to your affiliate into the template. These areas are all surrounded by square brackets. You can quickly find them by searching for the "[" character in Word. (To search, go to the "Edit" drop-down menu and select "Find.") Delete the brackets once you have entered your information.

4. REMOVE THIS CUSTOMIZATION PAGE FROM THE DOCUMENT.

Once you are finished customizing the document, select all the text on this page and delete. (You should be left with a blank page after the cover. The document is now ready for you to use and share.

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1. Introduction

1.1. Background

With increased scrutiny and regulations in the mortgage industry, it is important for Habitat for Humanity of Catawba Valley, Inc to strengthen its lending practices. This policy handbook and accompanying guidance handbook will help the affiliate improve its origination processes and comply with applicable federal lending laws and regulations, along with Habitat for Humanity International policies. **Applicable state laws and affiliate operation practices have been added as needed.**

1.2. Purpose

The policy templates in this handbook consist of key processes in Homeowner Selection/Mortgage Origination for Habitat for Humanity of Catawba Valley, Inc. They set out established principles and practices to guide the affiliate in lawfully selecting qualified applicants who may purchase a house that is financed — in whole or in part — by the affiliate. The consistent application of these policies is necessary to enable compliance with applicable laws and protect the integrity of the Habitat organization.

Habitat for Humanity of Catawba Valley, Inc (hereinafter referred to as "**Habitat**" in the policy documents) commits to complying with each policy. If an exception is required, the board designate, in accordance with all applicable mission statements, policies, guidelines, and bylaws, must make the final decision.

1.3. Scope

The policy handbook contains a collection of guidelines that apply to homeowner selection and mortgage origination for homeowner services.

1.4. Owner

Homeowner services.

1.5. Approver

Board of directors.

1.6. Review frequency

The policy will be reviewed, and revised as needed, every two years beginning on the date of approval by the board. The Homeowner Selection Committee will receive a detailed training on the policy at the beginning of every class term. Homeowner services staff will review the policy for informational purposes every 6 months. A condensed training regarding the policy will be conducted with broader Habitat staff annually.

1.7. Acronyms and abbreviations contained in this document

AMI: Area median income
AML: Anti-money laundering
CD: Closing disclosure
DLA: Date of Last Activity
DTI: Debt-to-income
ECOA: Equal Credit Opportunity Act
E-SIGN Act: Electronic Signatures in Global and National Commerce Act
FCRA: Fair Credit Reporting Act
FMV: Fair market value
GFE: Good faith estimate
GLBA: Gramm-Leach-Bliley Act
GSA: Geographic service area
HFHI: Habitat for Humanity International
INOI: Informational Notice of Incompleteness
LE: Loan estimate
NMLS: Nationwide Multistate Licensing System
NOI: Notice of Incompleteness
NPI: Nonpersonal information
OFAC: Office of Foreign Assets Control
PII: Personal identifiable information
QLO: Qualified Loan Originator
RESPA: Real Estate Settlement Procedures Act
SSN: Social Security number
TILA: Truth in Lending Act
TRID: TILA/RESPA Integrated Disclosure Rule
UDAAP: Unfair, deceptive or abusive acts or practices
USDA: United States Department of Agriculture
ZEM: Zero-equivalent mortgage

2. Homeowner services team

Habitat is committed to being a responsible loan originator organization. In order to meet operational objectives, homeowner services team members will be provided with the required training and development to perform their job in an efficient and compliant manner.

Protecting financial information collected from applicants is paramount. We will operate in a manner that safeguards consumer information.

2.1. Homeowner selection team qualifications

Each member of the team identified as a loan originator (1A) must become qualified. At minimum, an individual who participates in taking an application or who assists an applicant in applying for credit MUST become a Qualified Loan Originator, or QLO.

A. Each individual loan originator must become qualified pursuant to the TILA Loan Originator Qualification requirements for individuals who are not required to be licensed:

   I. At the time of hire, individuals must consent to a nationwide criminal background check and credit report and must provide information regarding any military, civil, criminal or administrative decisions. (1C)

   II. The nationwide criminal background report will be screened for the presence of these disqualifiers:

      a. Convictions (including no-contest pleas) to any felony during the past seven years.
      b. Any felony involving fraud, dishonesty, breach of trust or money laundering at any time. (1Cii)

   III. The credit report will be screened for patterns of financial abuse, with the following issues considered (1Ciii):

      a. The existence of current outstanding judgments, tax liens or other government liens.
      b. Nonpayment of child support.
      c. A pattern of bankruptcies, foreclosures or delinquent accounts.

   IV. Annually complete state and federal mortgage law training as required by the Truth in Lending Act. (1C)

   V. Oversight for this process will be managed by the Chair of the Homeowner Selection Committee. (1E)

2.2. Training

At minimum, other personnel involved in homeowner services will complete annual training on Anti-Money Laundering, or AML; Privacy; Unfair, Deceptive or Abusive Acts or Practices, or UDAAP; and the Fair Housing Act.

2.3. Confidentiality/privacy

Information collected from applicants and their household members is private and will be shared only with authorized people. (1D)

Each applicant will be provided an initial privacy disclosure that will accurately reflect **Habitat's** privacy policies and practices in compliance with the Gramm Leach Bliley Act, or GLBA.

3. Homeowner recruitment

3.1. Application outreach

Habitat will market throughout the geographic service area, or GSA, to recruit qualified applicants.

A. We will recruit prospective homeowners at least once per year. Applications will be accepted on a continual basis or an open application period will be held in the 1st quarter of every year for a duration of two weeks. One or more additional periods per year may be held as dictated by Habitat's need for homebuyers and its construction schedule. (2A)
B. Applications are available in the office or on the website during the open application period.
C. Applications will be distributed at Applicant Information Meetings. (2E)
D. We are committed to upholding the spirit and requirements of the Fair Housing Act by:

  I. Displaying the "Equal Housing Opportunity" logo, slogan, or statement on all applications, advertisements, and marketing materials and on our website, emails, and letterhead.
  II. Displaying an Equal Housing Lender poster whenever applicants are met or wherever applications are taken.
  III. Ensuring all potential applicants have equal access to the Habitat homeownership program by refraining from statements that would discourage an applicant.

3.2. Marketing materials

A. Applications, marketing or informational materials will not contain any reference to interest rates, down payment amounts or loan amounts.
B. Advertising across all media will be clear and accurate, will not mislead consumers or show a preference, and will not discourage any consumer. (2C)

3.3. Nondiscrimination

Habitat commits to treating all applicants in an equal manner. The following attributes will NOT factor into any action for the Habitat homeownership program, including information-sharing, distributing applications, advertising or evaluating applications: race, color, national origin, religion, sex, familial or marital status, disability, sexual orientation, age (provided the applicant can legally enter into a contract), income derived from public assistance, or a consumer who has, in good faith, exercised any right under the federal Consumer Credit Protection Act. (2D)

To fulfill grant requirements, we may target consumers who meet certain grant parameters (e.g. are elderly or who have a disability), but we will not limit housing solutions to people with these characteristics.

4. Habitat homeownership application (ECOA phase) defined

Habitat will provide an application package to each consumer who requests one during the application period. The application will serve to evaluate the consumer's qualification for the Habitat homeownership program based on three criteria: need, ability to pay, and willingness to partner. Application materials will not include any reference to property addresses, property value or a loan amount. (3A)

4.1. Application package

Documents included in the application package:

- Cover letter, including income limits and application instructions.
- Homeownership application.
- Background screening release.
- Verification of Employment release(s).
- Landlord Reference release(s).
- ECOA Special Purpose Credit Program Notice.
- Initial privacy notice. (3C)
- E-Sign Act Disclosure.
- Right to Receive Copy of Appraisal Disclosures. (3E)
- Borrower's authorization.
- Application meeting schedule
- IRS Form 4506T.

4.2. ECOA "completed application" defined

In compliance with the Equal Credit Opportunity Act, or ECOA, a "completed application" must include:

- A completed application form.
- Personal Identification documents
- Income documents. (5.13)
- Signed background screening release. (3B)
- Third-party consumer report release. (3G)
- Signed Verification of Employment release(s).
- Signed Landlord Reference release(s).
- Signed ECOA Special Purpose Credit Program Notice. (3B)
- Evidence of orientation meeting attendance.
- Signed borrower's authorization.
- Home visit report and/or "need for housing" assessment.
- A "willingness to partner" assessment.
- Board concurrence/approval.
- Homeowner Selection Committee report.

4.3 Additional application documentation

Habitat staff are responsible for obtaining additional application documentation gathered to assist in committee and board approval. This documentation may include but is not limited to Verification(s) of Employment, Landlord Reference(s), OFAC screening, background screening, consumer credit report, applicant budget report, recent bank statements, recent household bills, current lease or rental agreement, verification of childcare expenses, verification of assets, verification of child support or alimony paid, and divorce or separation papers (if applicable). To the extent these documents are not applicable or available, it will not constitute an incomplete application.

4.4. Allowable fees

Habitat may collect only a fee that is reasonable to cover the bona fide cost of a credit report before receiving the borrower's acknowledged intent to proceed.

5. Application evaluation

As a special purpose credit program, **Habitat** will evaluate each application to determine qualifications for "need for housing," "willingness to partner" and "ability to pay." Application evaluation will be subject to the guidelines below as well as guidelines from financing and subsidy partners.

5.1. Nondiscrimination

Habitat will not discriminate against any applicant during the credit transaction on the basis of race, color, religion, national origin, sex, marital status, age; for being a public assistance program participant; or for exercising any right under the Consumer Credit Protection Act.

Upon Habitat's receipt of each application, the following actions will be taken by a designated individual:

A. Date and time of submission will be noted on the application.

B. An initial review will determine if the application is completed and signed.

   I. If not, the application will be referred to the QLO to issue the applicable notice to the applicant.

   II. If the following requirements are not met, the application will be referred to the QLO to issue an adverse action notice within 30 calendar days of receipt.

      a. Household income within Habitat's income guidelines based on HUD Area Median Income (AMI) for affiliate area;

      b. applicant GSA affiliation;

      c. applicant legal U.S. residency **(4B) (4C)**

   III. If it is determined by Habitat that the application requires more information in order to complete the assessment, it will be referred to the QLO to issue an adverse action notice (4B) (4C) or a notice of incompleteness, or NOI, that identifies outstanding items (4D) within 30 calendar days of receipt.

5.2. Application status update

Applicants will be updated on their application status every 30 days by way of a written or verbal notice from the QLO.

A. Applicants who have been issued an NOI will not receive a status update until any requested items are returned to Habitat. If the applicant does not return the items within the prescribed time frame, the application will be marked "Incomplete" and denied. (4D)

B. Applicants who have been issued an Informational Notice of Incompleteness will receive a status update if the time frame to provide a decision exceeds 45 days. (4E)

5.3. Completed ECOA application

All completed applications, as defined by **Habitat** policy, in the homeowner assessment phase, will be provided with a notice of action taken within 30 calendar days of the decision:

A. Approved applicants will be provided with a partnership agreement.

B. Applicants who are denied will be provided with an adverse action notice.

5.4. Excess applicants

If the number of identified applicants exceeds the available inventory, applicants will be ranked in order of "need for housing" and income. Those with the greatest need and lowest income will be selected first. **(4A)**

5.5. Declined applicants

A denial may be issued at any time before closing. Applications declined for any reason will immediately be issued an adverse action notice pursuant to current legal and policy requirements. **(4B)(4C)**

5.6. Background screening

Each applicant, co-applicant, and intended Habitat household member 18 years of age and older will be screened for criminal history in the sex offender national database, nationwide criminal history records, and Office of Foreign Assets Control (OFAC) sanction list search.

A. Each individual must provide authorization for the background check reports to be obtained. If no approval is given to **Habitat,** the application will be denied, and an adverse action notice will be issued.

B. **Habitat**, in its sole discretion, will make an individualized inquiry to determine if the information on the report is related to the position and consistent with Habitat's business necessity, and may consider several factors, including, without limitation, one or more of the following:
   - Nature of the conviction and whether children were involved.
   - Time elapsed since the offense.
   - Extent to which the offense may affect the person's fitness.

C. **Habitat** reserves the right to recheck status at any time during the homebuilding process.

5.7. General selection criteria

In accordance with **Habitat** selection policies, all applicants will be evaluated on the criteria below:

A. Need for housing (Policies 5.10 and 5.11)
   I. Habitat is both the seller and a special purpose credit program, as well as being subject to the 2010 Dodd-Frank Act UDAAP regulations. As such, if an applicant's long-term housing situation is unlikely to be improved by Habitat homeownership, the Homeowner Selection Committee will not consider this individual to have need for a Habitat house. In this case, the Homeowner Selection Committee will make referrals to other programs more appropriate for that applicant's abilities and needs, for example, group home, public housing, Section 8, *etc*. **(4R)**

B. Willingness to partner (Policy 5.12)

C. Financial readiness/ability to pay (Policies 5.14-5.17)

D. Residency status (Policy 5.9)

5.8. ECOA record retention

All applications will be retained for 25 months from the date the applicant was notified of the decision. This file will retain all information used to evaluate the applicant, along with a copy of the notice of action taken. **(4C)**

5.9. Residency

A. **Habitat** encourages all interested consumers to apply for its housing program. Consumers who live, work, have established family, or have another significant employment or familial reason to hold long-term residency in Catawba County will be considered for the housing program. **(4F)**

B. **Habitat** will restrict program application and co-application to U.S. citizens, permanent residents, and legal residents working towards a permanent residency status, subject to the guidelines from funding and subsidy partners. **(4F)(4G)**

5.10. Financial evaluation

Habitat will serve the families with the highest need for housing by using a consistent approach to measure each applicant's level of need.

Need for housing shall be determined by evaluating financial (income level) and physical (substandard living condition) factors.

The financial evaluation will include:

A. Income limits (4Hvi)
B. AMI (4Hvii)
C. Household income (4Hviii)
D. Cost-burden analysis (4Hiii)

5.11. Physical living condition evaluation

The presence of these factors is recognized by Habitat as indications of need. This evaluation will include a home visit and consideration of the following as brought to the attention of Habitat staff or committee members (4Hiv)(4Hv):

A. Serious health challenges:[1]

   I. Carbon monoxide.
   II. Pest infestation.
   III. Presence of lead, mold, radon.
   IV. Allergens for those affected.
   V. Inadequate for a person living with disability

B. Substandard housing:[2]

   I. Is dilapidated.
   II. Does not have operable indoor plumbing.
   III. Does not have a usable flush toilet inside the unit for the exclusive use of a household.
   IV. Does not have a usable bathtub or shower inside the unit for the exclusive use of a household.
   V. Does not have electricity or has inadequate or unsafe electrical service.
   VI. Does not have a safe or adequate source of heat.
   VII. Should, but does not, have a kitchen.
   VIII. Has been declared unfit for habitation by an agency or unit of government.

C. Safety:
   I. Danger from others because of neighborhood crime (violence, drug activity, gang presence, criminal activity, etc.)
   II. Hazardous material in close proximity to the home
   III. Danger for children because of proximity to high-traffic areas

D. Overcrowded:[3] (4Hii)

   I. Conditions considered when assessing overcrowding in current living situation include: More than two people per bedroom and/or more than one person per room in unit. Household

[1] These health issues are provided by HUD.

[2] HUD provides this definition of substandard housing.

[3] Census Bureau definition

members are required to sleep in a common area. Pregnancy where the baby will create overcrowding.

II. If in doubt, alternate definitions for overcrowding available from the Census Bureau may be considered.

E. Cost-burden: (4Hiii)

When an applicant pays over 30 percent of their gross income for housing (rent or mortgage including escrow) because of the lack of more affordable housing, it can be determined that there is a housing need or a need for housing that is more affordable. The inability to obtain adequate housing through a conventional loan will also be considered. Unusually high utility costs such as electricity, heat, or water may be noted in evaluation and considered. A gross household income falling below 75% of AMI is also an indication of need with greater need demonstrated by a lower percentage of AMI. A gross household income below 60% of AMI is preferred.

F. Government-subsidized housing:

Although living conditions in government-subsidized housing may be adequate, there are families who are not able to purchase a Habitat home but who could take advantage of this limited resource if an eligible family moved on. Therefore, Habitat Catawba Valley considers occupancy in government-subsidized housing as a definition of need.

G. Homelessness:[4]

I. Lacking a fixed, regular and adequate nighttime residence (such as living with friends or relatives, in a hotel, or in a vehicle).

II. Having a primary nighttime residence that is a supervised publicly or privately operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters and transitional housing).

III. Having a primary nighttime residence that is an institution that provides a temporary residence for people intended to be institutionalized.

IV. Having a primary nighttime residence that is a public or private place not designed for, or ordinarily used as, a regular sleeping accommodation for human beings.

5.12. Willingness to partner

An applicant's willingness to partner is a critical component of the relationship with Habitat.

Applicants to Habitat's homeownership program will evidence a "willingness to partner" by agreeing to meet all the obligations outlined in the current partnership agreement. Willingness to partner may be measured by the timeliness, completeness, and cooperation with which the applicant responds to homeowner selection-related requests or questions and meets sweat-equity requirements.(4I)(4J) Failure to meet those agreements in the time frames identified will result in deselection/denial from the program.

A. Unsolicited Information

In processing an application, unrequested and unofficial information may come to the attention of the Homeowner Selection Committee. The information may be speculative and unreliable. Therefore, it may be investigated and discussed with the applicant to determine its accuracy and its impact on the committee's assessment of the applicant's willingness to partner, need, or ability to pay.

[4] HUD definition of homeless

5.13. Ability to pay

Ability to pay assessment will be performed to ensure that each applicant is financially ready for homeownership.

5.13.1 Household Size

The affiliate will define a household member as an individual expected to reside in the new Habitat home. This includes all adults and non-dependents, related or unrelated, without regard to marital status, gender identity or sexual orientation who plan to reside in the home for at least 3 consecutive years, beginning with the date of closing. Minors and/or dependents who reside in the home (including dependent college students whose permanent address will be the new Habitat home) will be considered household members providing a household adult has greater than 50% custody of said minor and/or dependent. Habitat's homeownership program, as noted above, is a special-purpose credit program, accordingly, affiliate may request and consider, in determining an applicant's eligibility for the program, information regarding the applicant's marital status and may require the spouse's financial resources.

Pregnancy where the baby is not expected to be born until after the homeowner takes residency would not be considered as a household member with regard to percentage of AMI but would be considered when assessing household need and/or overcrowding in current living situation. In the event a baby may be born before closing date, ability to pay calculations will be performed and considered both with and without the child as a household member.

Nonrelated and necessary live-in caregivers will not be considered as household members.

5.14. Income (4K)

Income guidelines for each household size will be based on 35%-75% of AMI. Income determinations will be subject to guidelines from financing and subsidy partners.

A. Employment income: (4L)

I. A two-year history of employment will be verified for full- and part-time employment. Applicants relying on working income must have at least a steady one-year work history immediately prior to application submission with all gaps or changes in employment during that time being for approved reasons. Approved reasons could include: school attendance, major medical occurrences, improvement of job situation, *etc*. If documented job-related compensatory income is being received for short or long term during gaps or changes, the time can be considered as worked. Unemployment insurance is not considered 'compensatory income'. Employment income should reflect a history and future likelihood of ability to pay a Habitat mortgage loan. Examples of this could include continuing work in the same field or a steady history of income within Habitat guidelines.

II. Part-time employment will be considered depending on likeliness to continue.

III. Overtime, bonus, and commission income will be included unless employer states it is not likely to continue.

IV. Self-employed income will be used if the applicant has been self-employed for a full two years. A current profit-and-loss statement may be required for review. The usable income for a loan is the bottom line on your federal tax return after all deductions.

B. Other income considerations: (4M)

I. Only income received by the applicant or homebuyer(s) will be used for debt service and mortgage calculations to determine ability to pay. This includes income received by applicant or homebuyer intended for the support of dependents, for example, Social Security or SSI.

II. Child support and alimony will be used. Acceptable proofs of payment are 12 months of cancelled checks or a printout from the court if it is being paid through the court system. Habitat will use income from child support maintenance and alimony payments in determining gross household income, ability to pay, and mortgage calculations. Applicants will be asked to give their consent with their completed application; consent is a requirement for program eligibility.

III. Public assistance income will be verified and used if it is reasonably expected to continue. No applicant will be excluded solely because he or she receives public assistance.

IV. Applicants who use housing assistance to cover 50% or more of their mortgage payment, may need to pass a residual income analysis subject to the requirements of financing and subsidy partners.

V. All income used must be expected to be ongoing for three years following closing.

5.15. Assets (4N)

A. Assets will be verified; retirement and education accounts will not be included in assets. Cars in excess of 1 per adult in the household will be included in assets. Value of assets cannot exceed 80% of the cost of construction or the amount that would make a conventional bank loan for a simple, decent home accessible to the applicant, whichever is lower.

B. At Habitat's sole discretion and depending on an applicant's situation, Habitat may require that assets in excess of $20,000 be used as additional down payment at closing. In the event that an applicant has income below Habitat guidelines but also has assets in excess of $20,000, acceptance may be considered. Acceptance may only be considered if accumulated assets could bring down a mortgage amount such that it becomes affordable without an additional subsidy. An applicant accepted based on assets must maintain those assets until closing. Failure to maintain these assets could be grounds for deselection.

C. Applicants who have owned a home within 3 years prior to expected house start are not eligible for acceptance. An exception will be made if an applicant is one of multiple heirs who have inherited a property. An exception may also be made if the home currently owned by the applicant is seriously substandard. Additional exceptions may be made subject to the guidelines from financing and subsidy partners.

D. Asset determinations will be subject to the guidelines from financing and subsidy partners.

5.16. Debt-to-income ratio (4O)

A. The standard debt-to-income ratio will be capped at 30/43.

B. In the interest of affordability, generally, ratios of 24/40 will be used when considering debt to income. An overage on the back-end ratio up to 43% is allowable only if the overage is caused by student loans. In the event of an overage of this type, an assessment of residual income will be necessary.

C. Debt to income determinations will be subject to the guidelines from financing and subsidy partners.

5.16.1. Debt included in debt-to-income ratios (4O)

A. All installment debt.

B. The balance on revolving debt will be divided by 24. This number or the minimum payment on such debt, whichever is higher, will be included in debt-to-income calculations.

C. Co-signed loans (unless 12 months of cancelled checks show payments being made by the other party).
D. Child support.
E. Alimony.
F. Joint debt with previous marriage will be included unless divorce papers clearly define that the liability belongs to the ex-spouse and there is proof of 12 months of payments made by the other partner.
G. Deferred student loans will be included, using a monthly payment of 1 percent of the balance. Student loans on an income driven repayment plan with a payment of $0 will be included with a calculation of 0.5% of the balance.
H. Applicants with debt that raises applicant's debt-to-income ratio above 40% and has less than twelve months left to pay may be conditionally accepted. For example, a family with a car payment that puts them over the DTI ratio but that will be paid off in four months could be conditionally accepted, but not put on the construction list until the loan is paid off. (See Conditional Acceptance 5.17.1).

5.17. Credit (4P)

A. A residential mortgage credit report, also known as a tri-merge credit report, will be obtained and reviewed to determine creditworthiness.
B. The focus of the credit report review will be the quality of the credit over the past 36 months.
C. Applicants who have collection account balances with DLAs less than 36 months old must be denied unless the total balance of these accounts makes the applicant eligible for conditional acceptance.
D. Applicants who have government debt in collection, including student loan accounts and child support, regardless of the age of the debt, must be denied unless the total balance of these accounts makes the applicant eligible for conditional acceptance.
E. Non-Governmental collection accounts with DLA more than 36 months old will not be considered a factor in credit decisions.
F. Applicants with open judgments must be denied unless the total balance of these accounts makes the applicant eligible for conditional acceptance.
G. Applicants with open liens must be denied unless the total balance of these accounts makes the applicant eligible for conditional acceptance.
H. Any applicant who has filed bankruptcy must have been charged off for no less than two years.
I. Applicants with repossession balances with DLA less than 36 months old must be denied unless the total balance of these accounts makes the applicant eligible for conditional acceptance.
J. All open liens or judgments must be cleared before closing. All collections accounts or repossessions with DLA less than 36 months must be cleared before closing.
K. Medical debt in collection with a DLA less than 36 months old will be totaled. If this total is greater than $10,000, the applicant must be denied. If this total is less than $10,000, it will not be considered a factor in credit decisions. All medical debt in collection with a DLA greater than 36 months old will also be excluded from credit decisions. Applicants who have judgments or liens on medical debt with a total balance ineligible for conditional acceptance must be denied.
L. Credit determinations will be subject to the guidelines from financing and subsidy partners.

5.17.1 Conditional Acceptance

Applicants may be considered for conditional acceptance who:

A. Have current debt payments that create a housing-plus-debt to income ratio above 40% that are expected to be paid down to under a 40% housing-plus-debt to income ratio within 12 months of acceptance.

B. Have open liens or judgments that can be paid off within 12 months of acceptance. In doing so, applicants must be able to keep their total monthly rent plus debt payments within 40% of their gross monthly income.

C. Have collection accounts or repossessions with DLA(s) less than 36 months old that can be paid off within 12 months of acceptance. In doing so, applicants must be able to keep their total monthly rent plus debt payments within 40% of their gross monthly income.

For conditional acceptance, applicants must also demonstrate an ability and likelihood to pay the questionable account(s) in full within 12 months of acceptance.

All accounts in question must be paid in full before an applicant is placed on the construction list. If an applicant fails to pay off questionable accounts within 12 months of acceptance, this is grounds for deselection.

5.18. Rental verification and monthly payment consistency

A. A full one year of rent, and one month of utilities and other credit obligation payments will be verified. If monthly payments appear derogatory, additional documentation may be requested.

B. Any payments at least 30 days late within the most recent 12-month period will require a letter of explanation from the applicant.

5.19. Mortgage calculations (4Q)

A. 30 percent of gross income can go to housing (principal, interest, taxes, insurance) (maximum front-end ratio). In the interest of affordability, Habitat's goal is to set house payments including principal, interest, taxes, and insurance at 24% of household gross income. Mortgage calculations will be subject to guidelines from financing and subsidy partners.

B. No more than 43% of an applicant's gross income can go to housing plus other debt (maximum back-end ratio) at closing. Habitat's goal is to set the maximum back-end ratio at 40% unless current student loan debt is responsible for the difference up to 43%.

6. Partnership

Habitat will serve the household with the highest need for housing. Habitat will objectively define and document how need will be measured and applied consistently to all applicants.

Need for housing shall be determined by evaluating financial (income level) and physical (substandard living condition) factors.

6.1. Deselection

Homebuyers will be deselected only in the following cases: (5A)

A. Demonstrated fraud on the application.
B. Failure to complete requirements set forth in the partnership agreement — i.e., lack of willingness to partner.
C. Negative change in financial condition that significantly affects the ability to pay. This includes presence on the OFAC Sanction List.
D. Presence on a sex offender database that disqualifies an approved applicant according to the affiliate's policy on sex offender registry checks. This policy must be approved by the board before an applicant or approved applicant is rejected or deselected for this reason.

6.2. Adverse action

If a prospective homeowner is deselected, Habitat will send the applicant an adverse action notice that includes the reason for the denial or deselection.

6.3. Sweat equity

A. Each prospective homeowner and their household members (as applicable) will contribute *250 sweat-equity hours* per applicant or co-applicant (minimum)(5B) to further the Habitat mission. HFHI policy requires that 100 of these sweat equity hours must be completed on the construction site. The required hours will be completed on the schedule as defined in the partnership agreement and will include construction site work, training for basic home maintenance, homebuyer prepurchase financial training, and other activities as defined by the partnership agreement. Failure to complete these hours is cause for deselection.
B. Sweat equity has no monetary value and applicant will not be compensated should they withdraw or be deselected. Depending on requirements of subsidy and financing partners, sweat equity may be assigned as credit towards down payment. (5C)

6.4. Credit repair (5D)

Prospective homeowners with credit issues within Habitat ability to pay guidelines will be selected for their anticipated future ability to pay.

A. If an applicant is required to remediate their credit as part of the partnership agreement, a work plan drafted by a HUD-certified credit counseling agency and agreed to by the applicant will be attached to the partnership agreement.
B. Failure to progress on this plan according to the schedule will result in deselection.

6.5. Electronic communication (5E)

Habitat will provide the option of communicating electronically with each applicant.

A. Applicants electing to receive electronic communications will acknowledge an E-Sign Disclosure.
B. All personally identifiable information will be sent through encrypted email.

7. Housing affordability and subsidy

Habitat ensures that housing units will be priced in a uniform manner according to HFHI policy, funding programs and applicable laws. We further commit to affordability by financing the sale and offering the right-size subsidy.

7.1. Housing price

A. Each home will be sold at the fair market value determined by an independent appraiser. (6A)

   I. When a funding program or applicable law requires a different method for determining sale price, Habitat will adhere to that standard.

B. Each homebuyer (including withdrawn and/or denied/deselected) who has been issued a lot number or property address will be provided a copy of the appraisal upon completion or no later than three business days before closing.

   I. An appraisal is considered complete when Habitat reviews and approves it.
   II. If multiple appraisals are performed, a copy of each appraisal will be provided to the homebuyer.
   III. Appraisers will be randomly selected for each project.

7.2. Third-party lender

In situations where a third-party lender will hold the first mortgage, Habitat will adhere to third-party lender agreements that offer direct financing to homebuyers.

A. A written agreement will be in place with all third-party lenders.
B. Financing will be affordable and will not exceed 43 percent DTI. It is the homebuyer's responsibility to make every effort to ensure housing expenses do not exceed 30 percent of their gross income.
C. If required, Habitat will hold a subordinate mortgage to protect equity at closing.

7.3. Affordability

In situations where Habitat prefers to hold the first mortgage or the homebuyer is not eligible for a third-party first mortgage, a fully amortizing first mortgage loan will be granted by Habitat to qualified applicants who meet the conditions in their partnership agreement.

A. Amortizing mortgages will not exceed a 30-year term unless an exception for a term of up to 33 years is required to make the mortgage affordable for the homebuyer and is acceptable to all financing and subsidy partners. (6C)
B. A determination of each applicant's affordability index will be completed to ensure that their DTI does not exceed 43 percent of gross income.
C. At closing, each applicant's mortgage payments (which include principle, interest (if any), taxes and insurance) will not exceed 30 percent of their gross income. (6B)

7.4. Subsidy

Habitat will provide a subsidy in the form of a subordinate lien to protect any unaffordable equity at closing.

A. The difference between the sales price and the total of all amortizing and down-payment assistance loans (repayable) will be secured with a deferred subordinate lien (generally referred to as a "soft second"). (6D)

B. The term of the subordinate mortgage will match the term of the first mortgage.
C. All 30-year deferred mortgages will be forgiven beginning year 6 at 4 percent per year. **(6E)** Early payment in full of the first mortgage will not satisfy the terms of the subordinate mortgage. **(6F)**

7.5. Shared appreciation strategy

Habitat prioritizes homeowner wealth building and chooses not to share in the appreciation experienced during ownership.

7.6. Right of first refusal

Habitat retains the "right of first refusal" on all Habitat property sold. **(6H)**

7.7. Closing costs

A. Buyer and seller will share in responsibility for closing costs at the currently defined schedule. **(6I)**
B. Combined loan-to-value, or CLTV, will not exceed 100 percent of the sales price, unless closing costs are financed.

    I. If closing costs are financed, CLTV will not exceed 103 percent of the sales price.
    II. Financed closing costs will be factored into the 30 percent front-end ratio to ensure affordability.

8. Sale preparation (RESPA phase) and closing

Habitat will ensure practices for house sale and loan closing and their preparation will adhere to applicable federal and state laws. Homebuyers will be provided all relevant information describing the sale and financing of the housing unit.

8.1. Sale preparation

No more than three months from the expected closing date, **Habitat** will:

A. Order a title search and obtain title commitment.
B. Order a flood determination:

    I. If the property is located in a special flood hazard area, or SFHA, two notices will be sent to the buyer.
    II. If the property is not located in a flood area, the flood certificate will be filed with the loan.

8.2. Mortgage application/final evaluation

A. When a mortgage application as defined by RESPA is triggered, **Habitat** will: (7A)

    I. Within three business days, mail or email (as applicable) the initial disclosures to the borrower.
    II. Set an appointment to meet with the borrower to review the disclosures.
    III. Perform final underwriting and validations.
    IV. Coordinate with funding partners, if applicable.

B. Upon receipt of the intent to proceed from the borrower, **Habitat** will:

    I. Prepare closing disclosures and conveyance documents.
    II. Set a closing date and coordinate with the settlement agent.
    III. Request a copy of the insurance binder from the buyer.

C. Scheduling a final walkthrough with the construction team and the buyer:

    I. Obtain the certificate of occupancy from construction personnel.
    II. Complete the punch list walkthrough no later than a week before closing.

D. Preparing the warranty binder for the borrower:

    I. Included in the binder will be all warranty information and instruction manuals, as applicable.

E. Upon preparation of closing documents:

    I. Review disclosures for accuracy. Be mindful of tolerances.
    II. Review Closing Disclosure for accuracy.
    III. Provide Closing Disclosure to the borrower no later than three business days before closing. A business day excludes Sunday and public holidays. If a copy of the appraisal has not been provided, it will be sent out with the Closing Disclosure. **(7E)**

8.3. Sales contract

Each homebuyer will be provided with a sales contract that includes pertinent terms to close the loan. (7B, 7C)

8.4. Prohibited practices

A. **Steering.** When using a third-party lender, **Habitat** will identify characteristics for each loan program offered. Either: (7D)

   I. Each borrower will be offered a loan best suited to their qualifications.
   II. Each borrower will be provided with information on each lending partner, but **Habitat** will not require the borrower to use any specific lender.

B. **Habitat** will not give or accept any fee, kickback or item of value in connection with a real estate settlement service.

C. **Habitat** will not require, directly or indirectly, that the buyer purchase title insurance from any particular title company.

8.5. Representation

Habitat will require that each buyer be represented by legal counsel for the purchase of their Habitat home, as applicable by state law. (7F)

8.6. Record retention

Habitat will safeguard applicant information as follows:

A. Applicant information will be stored in a locked cabinet in the Habitat office. Only affiliate personnel with authorization to read or review such information can remove the file. Digital applicant information will be segregated from other information on the affiliate server and will have unique password protection.

B. Applications and all information used to determine qualification will be retained for 25 months after a decision has been made.

8.7. Closing

A. All applicable documents will be sent to the settlement agent.

B. If changed circumstances have been identified that warrant a redisclosure of the LE or GFE/TIL Statement, it will be provided within three business days of the identification of the change.

C. Closing will be set for any time after the seventh day the initial disclosures were provided. (7G)

Appendix 1: Homeowner services team

A. Certain responsibilities of homeowner selection can be managed by the following roles or agencies:
- Homeowner Selection Committee
- Homeowner selection/support staff
- Finance committee member
- Finance staff
- Third-party lender
- Outside credit agency

When determining the responsible party for applicant and household selection, it is important to remember that certain tasks are considered loan origination activities.[5] Therefore, you must ensure that the person assigned to each task has been appropriately trained and credentialed and understands the legal requirements of their task.

At minimum, any person discussing loan products or payment terms; assisting an applicant with an application; or providing federally required notices (e.g., adverse action, notice of incompleteness, etc.) **must** be a Qualified Loan Originator, or QLO. How that credential is obtained varies by state[6].

I. Team members who are not performing loan origination activities must still undergo training on applicable homeowner selection laws. For example, at minimum, home visitors should receive regular training on anti-money laundering, or AML; privacy; Equal Credit Opportunity Act, or ECOA; Fair Housing Act; and unfair, deceptive, abusive acts or practices, or UDAAP. Team members who perform underwriting should also receive, at minimum, training on AML, privacy, ECOA, Fair Credit Reporting Act and Fair Housing Act.

B. If state law requires affiliates and individual loan originators to be SAFE Act-licensed, they must follow state protocol for obtaining their license or registration. A unique NMLS number, with the affiliate sponsoring the individual, will be assigned upon completion of licensing.

C. If state law offers or provides a SAFE Act exemption, affiliates should determine what is required to obtain it. Once obtained, qualification for individual loan originators will be based on the Truth in Lending Act, or TILA, qualification requirements. Completion of the American Bankers Association online loan originator training satisfies this federal requirement. State training must still be obtained either online or in-person with a qualified trainer.

Please note: QLO training by the committee chair does not cover all committee members.

I. TILA requires all lenders to ensure that their individual loan originators are financially responsible, of good character and generally fit. Although this is only ***required of people performing loan originator activities***, it is best practice to have a backup for succession planning and unplanned absences.

II. The criteria regarding criminal background screening **cannot be reduced**. These minimum standards are set by federal law. Your affiliate may choose to have more restrictive criteria (e.g., no felony convictions at any time), but the stated criteria must be adhered to.

III. Federal law does not set a minimum credit standard for loan originators but does recommend that a pattern of financial abuse be a disqualifier. What constitutes a pattern must be established in policy (e.g., three collection items; more than two nonpayments of child support; or one collection item, one bankruptcy and consistent 30-day-plus payments).

[5] See **Qualified Loan Originators—Tools and Resources** for a complete discussion of loan origination under RESPA and TILA.

[6] See **SAFE Act Analysis** to determine your affiliate's state status.

D. The federal Gramm-Leach-Bliley Act, or GLBA, requires affiliates to safeguard client information, specifically nonpublic personal information, or NPI. Any information a consumer provides to obtain a determination of their qualification for a loan, or any information that is gathered in connection with providing the loan, is considered NPI. Personally identifiable financial information falls under the protection of NPI, which includes account balances, payment and overdraft history, customer status, information collected through an internet "cookie" and information from a consumer report. Privacy rules require an initial and annual privacy notice to be provided to consumers (applicants) and customers (borrowers), as applicable. The federal ECOA requires recordkeeping of applications for 25 months after the notice of action is taken. These are all legal requirements and **cannot be reduced**.

E. Processes and practices without oversight can lead to many risks. To protect the affiliate, it is suggested that an individual be assigned responsibility for monitoring consistency across policies and compliance.

RETURN TO SECTION 2. HOMEOWNER SERVICES TEAM

Appendix 2: Homeowner recruitment

A. **Applicant outreach**

Define a specific period when you will accept applications (e.g., each February or for the first month of every quarter). **Your announcements must include a beginning and ending date**. Closing enrollment when you find someone suitable rather than evaluating all applications for qualified candidates protects your affiliate from any appearance of bias.

I. If applications will be accepted only periodically, a log of interested consumers can be kept to notify them when the application period opens. Keep only their name and contact information.
II. A log also may be used for recording consumers who want to attend an application meeting (also known as orientation or community meetings). Each consumer must be notified about the next application meeting.

B. **Equal housing**

The Equal Housing Logo (**hud.gov/library/bookshelf11/hudgraphics/fheologo**) must be prominently displayed anywhere applications are given or received, and where applicants are met to comply with one aspect of the Fair Housing Act, or FHA. You may distribute your applications in a variety of ways as long as everyone has an opportunity to obtain one. For example, if you hold application meetings, you must provide an alternative way to obtain an application for those who could not attend the meeting. Additionally, you cannot require a condition to be met before a consumer can receive an application.

C. **Marketing materials**

The Truth in Lending Act, or TILA, requires any advertising of credit terms (e.g., down payment or interest rates) to include additional disclosures displayed in a prominent manner. HFHI policy further requires that the amount of financing an applicant will receive will be based on their income at the time of sale. A useful alternative for marketing purposes is to state that you provide a housing solution that is "affordable for the applicant" or a solution that will not exceed 30 percent of their income.

D. **Nondiscrimination policy**

All items on this list are a matter of federal law and cannot be altered or ignored.

E. **Application meetings**

Affiliates have relied on application meetings to communicate homeownership program requirements to consumers. This allows consumers to be informed of the long process of education and manual labor when becoming a homeowner. You must determine how often and when the meetings will be held, and they must be advertised. If you accept applications only during a certain time of the year, it is acceptable to hold the meeting within four weeks of the open application period. It is imperative to have interpreters for these meetings, especially if there is a large population that has limited English proficiency. Interpreters will be available for languages dominant in the GSA. Meetings will cover the following topics:

I. Overview of the Habitat homeownership program.
II. Requirements of applicants.
III. Expectations of both Habitat and applicants.
IV. Timelines for the process.

RETURN TO SECTION 3. HOMEOWNER RECRUITMENT

Appendix 3: Habitat homeownership application (ECOA phase) defined

ECOA permits lenders to define a "completed application." The definition will be used for the homeowner assessment phase or loan pre-approval, and triggers certain legal deadlines and notices. This process includes activities such as home visits and board concurrence to avoid being deemed by law to have completed an application prematurely. The application should provide sufficient information to support the evaluation of:

- Need for housing.
- Willingness to partner.
- Ability to pay.

For an explanation of the purpose of each document, see the **Homeowner Selection AOM**.

A. If property address, sales amount or loan amount is included in the application, the application process moves into a completed RESPA mortgage application (the RESPA phase). Choosing to include this information in the application process will trigger all applicable RESPA/TILA disclosures and notifications.

B. These documents may be separate or combined in the application form.

C. GLBA requires that when sharing consumer PII, the consumer must be provided with a privacy notice that outlines what information is collected, whom it is shared with, and whether the consumer can opt-out. If the information sharing is a regular part of business, such as applying for grant funding or a funding partner, the consumer cannot opt out. If your affiliate does not share consumer information, the privacy disclosure can be provided later in the process with the RESPA initial disclosures.

D. The E-Sign Act disclosure is required if you intend to communicate information electronically with applicants. At this point in the application process, it is recommended that affiliates communicate by paper documents and reserve electronic communication for borrowers only. See Policy 6.5 for additional details.

E. ECOA requires that each mortgage applicant is provided with the Right to Receive Copy of Appraisal disclosure. To meet the requirement of the law, HFHI strongly recommends that it is included in the application package. Should your affiliate not be the lender on the transaction, then this disclosure will be provided by the lender and can be removed from the document in the application package.

F. Form 4506-T is an IRS form that affiliates can use to retrieve an applicant's tax transcripts. It can be used for individuals or self-employed applicants. Each applicant must sign the form granting the affiliate permission to obtain copies of tax returns.

G. Affiliates that rely on another organization to pull credit reports for their applicants are strongly recommended to use a release or disclosure. This would provide notice to applicants that their credit report is being pulled by another company and, therefore, Habitat will not show performing a credit inquiry. The third party and the affiliate must have an agreement outlining the terms for pulling an applicant's credit report. The release/disclosure used should be drafted together with the third party.

RETURN TO SECTION 4. HABITAT HOMEOWNERSHIP APPLICATION (ECOA PHASE) DEFINED

Appendix 4: Application evaluation

A. **Selection criteria**

Applicants with the most financial resources often have the least need for a subsidy, but our mission requires that we serve households with the least ability in order to address their housing needs. See Appendix 6 for a discussion of subsidy computation.

B. **Declined applications**

Current law requires that an adverse action notice be sent within 30 calendar days to denied applicants. Even if there are law variances with respect to the timeliness of notifications, it is never acceptable to retain an application for future use. An applicant can always apply in the future. An affiliate cannot retain an application for future use.

C. **Application retention**

It is critical that all documents used in determining the applicant's outcome be retained in the file. This includes all home visit notes, income calculations, etc. Regulatory agencies will require this information should you be audited.

D. **Notice of incompleteness (NOI)**

The NOI is a notice required by the ECOA. This notice is provided in writing to applicants who submit an incomplete application. It must specify the information required to continue processing the application and provide a reasonable period for the applicant to furnish the missing information.

E. **Informational NOI (INOI)**

The INOI is an internal notice provided to applicants when missing information resides with the affiliate. For example, a decision cannot be made if a home visit (as per policy) has not be completed or the board has not met to provide their concurrence on the applicant.

F. **Geographic service area affiliation**[7]

Because of the potential to perpetuate discriminatory housing patterns, HFHI recommends that affiliates not establish local residency requirements for applicants. An affiliate may choose, however, to establish a policy whereby it accepts applications only from people who either live or work within its service area. In this case, the affiliate should not require that the applicant live or work in its service area for more than one year.

An affiliate may not limit applications for a home in a certain neighborhood within its service area to residents of that neighborhood. This could be seen as illegal steering. An exception could exist when a municipality donates property with a condition that it houses a town resident.

An affiliate should not limit access to applications based on where an applicant worships.

G. **Immigration status of applicants**[8]

The affiliate may consider whether an applicant is a permanent resident of the United States, the applicant's immigration status, and any additional information that might be needed to ascertain the affiliate's rights and remedies regarding repayment. For example, the applicant's immigration status and ties to the community (such as employment and continued residence in the area) could

[7] See the Guidance Memorandum: Residency of Applicants-Local.

[8] Consult the Guidance Memorandum: Immigration Status of Applicants.

have a bearing on the affiliate's ability to obtain repayment. Accordingly, the affiliate may consider immigration status and differentiate, for example, between a noncitizen who is a longtime resident with permanent resident status and a noncitizen who is temporarily in this country on a student visa for purposes of determining their ability to pay. Although the affiliate may solicit residency status (e.g., U.S. citizenship or permanent resident status) from applicants, this information cannot be used to deny homeownership unless temporary or illegal residency is determined. The ECOA and the Affiliate Covenant provide that applicants shall be selected without regard to ethnic background.

H. **Evaluating need for adequate housing**

The sections below outline how to determine the need for adequate housing. Need for housing should be determined after an evaluation of both financial (income level) and physical (substandard living conditions) factors. To determine both aspects of need, the affiliate must first establish the household size because it affects the calculation of total household income as well as the evaluation of current living conditions in regard to overcrowding. Household size also affects the home size that is made available for purchase to qualified homebuyers. The affiliate must determine and document how it defines the household to ensure legal adherence and consistency.

I. Household size

Household size is determined by all people occupying a housing unit who are expected to reside in the home over an extended period. This includes all adults and minors, dependents and nondependents, related or unrelated, without regard to marital status, gender identity or sexual orientation. The affiliate should include a definition of an "extended period" (such as three or five years) to ensure consistent application. Habitat's homeownership program, as noted above, is a special-purpose credit program, accordingly, affiliates may request and consider, in determining an applicant's eligibility for the program, information regarding the applicant's marital status and may require the spouse's financial resources.

Additional information regarding household size to consider and document in the homeowner selection process:

- At what age dependents are expected to leave home, excluding any special circumstances or dependents with special needs (please note that this cannot be determined by cultural or ethnic group).
- College students who live on campus while classes are in session.
- Multiple families living in one home.
- Pregnancy where the baby is not expected to be born until after the homeowner takes residency. ***Note:*** *This does not count for determining AMI.*
- Nonrelated live-in caregivers.

II. Overcrowding

HUD provides guidance that the affiliate might want to consider regarding the number of individuals in each bedroom and overall square feet per individuals living in the home. For details, see **census.gov/content/dam/Census/programs-surveys/ahs/publications/Measuring_Overcrowding_in_Hsg.pdf**. As with other issues, the standards used by the affiliate should reflect those of their community (e.g., standard housing in a major metropolitan area may be significantly smaller than in a suburban area).

III. Cost burden

HUD has established that if the cost of rent (or mortgage including escrow) is more than 30 percent of a household's gross monthly income, the household is cost-burdened. The affiliate may also include the cost of basic utilities (water, electricity, heat) in its definition of cost burdened. To determine if utilities are causing a burden, the affiliate must document policy that compares average utility costs in its area for a dwelling of a similar type (apartment, single-family, etc.) and size. The policy should include how much the cost of utilities must be over the average cost of utilities to be considered a burden.

IV. Home visit

The home visit is only to assess the applicant's need for adequate housing (generally the items listed **below**). Applicants must agree to a home visit before final committee action. The home visit cannot include verification of documents, qualification questions not associated with living conditions, or any other exchange of information. Preferably, only one home visit will be conducted. Additional visits can be perceived by applicants as intrusive and portray a lack of trust. In certain circumstances, a follow-up home visit might be necessary to clarify specific circumstances, but these should be avoided unless completely necessary.

Home visits should be performed by a two-person team — never by only one person. This practice provides multiple perspectives on the living conditions and can help the affiliate avoid accusations of impropriety. The home visitors should use a structured format or a checklist to ensure that all visits gather the same information in an unbiased manner. Ideally, one of the two-person team members should be a qualified loan originator.

Home visitors should:

- Obtain relevant information to confirm the applicant's level of need for adequate housing apart from any financial information (only a qualified loan originator should obtain or discuss financial information).
- Assess the applicant's willingness to move to current or future Habitat house construction locations.

Home visitors should not plan to discuss other issues, but if asked must be able to:

- Explain and review Habitat's ministry and the basic requirements for obtaining a home if the applicant is selected.
- Answer general questions from the applicant about the Habitat homeowner selection process.
- Understand which questions must be deferred to the loan originator, such as their income or the lending details, and give the contact information to the applicant.

If English is not the applicant's primary language, the affiliate should include accommodations for these applicants in their policy. At no time should the applicants be permitted to bring their own translator or use young children to translate on their behalf. Affiliates must be confident that any communication between the affiliate and non-English-speaking applicants are accurate and successfully communicated. The affiliate may provide a staff member who is fluent in the applicant's language or use a third-party translation service. Local courthouses and hospitals have staff translators who are sometimes permitted to provide services to affiliates without charge. Work with your local courthouse and hospitals to see if your affiliate can benefit from their translators.

When conducting a home visit with an applicant whose primary language is not English:

- One or both of the home visitors should be fluent in the appropriate language.
- If a translator is needed, the affiliate must arrange and confirm before the visit.

Additional notes about home visits:

- Visitors must avoid asking questions that could be considered a violation of the Affiliate Covenant or fair lending laws.
- The committee must be free of any biases due to an unkempt home, type of vehicle that is owned, or physical appearance of the applicant.
- Be careful about possible discrimination based on disability. (Visitors can legitimately inquire if a person is receiving disability income from Social Security, but they should not inquire about the reasons why the applicant is entitled to receive such income or the amount.)

V. After the home visit

A home visit report must be completed by the visitors and submitted and/or presented to the committee. The report should include salient points regarding the current local housing need information.

VI. Income limits

Habitat's homeownership program is to serve those who may not obtain adequate housing through conventional lending but can pay a Habitat mortgage. Therefore, Habitat has set income parameters that limit the total household income to be eligible for a Habitat home.

To become a Habitat homebuyer, a household must have a total income of 60 percent or less than the area median income, or AMI, as determined by HUD and stated in **U.S. Policy 11**. (For affiliates serving areas with exceptionally high property values, the policy allows income to 80 percent or less of AMI). The AMI limit applies to the total income based on household size.

VII. AMI

HUD determines the AMI for counties and metro areas on an annual basis. AMI is calculated on pretax and deduction income dollars. HUD AMI charted by household size is available through the HUD website and can be accessed through **huduser.gov/portal/datasets/il.html**. The HUD chart shows the calculations for "very low income" — 50 percent of AMI, "extremely low income" — 30 percent, and "low income" '— 80 percent of AMI. The affiliate must calculate AMI at 60 percent using the HUD information. This can be done by multiplying the 50 percent (very low) income limits by 1.2 (120 percent).

VIII. Determine household income

Household income is defined as all the funds legally received on a regular schedule by all household members from all sources: salary, retirement, pension, Social Security, TANF, disability, child support, alimony, public assistance, etc., at the time of application. Once each household member's income is verified, the combined income should be compared with the AMI range associated with the number of members in the household. Because this is a special-purpose credit program, income derived from child support, maintenance and alimony payments can be requested from household members to determine program eligibility, but these can be used as sources of income to repay the loan only when consent is provided by the applicant.

Sample indicators to demonstrate need for adequate housing:

(This is not a complete list. Some items may require an expert to identify)

- Structural problems (leaky roof, unsafe flooring, etc.).
- Inadequate electrical system, plumbing or lack of an indoor bathroom.
- Lack of functioning entrance and exit points — back and front doors.
- Unsafe heating system or lack of formal heating system.
- Unsuitable neighborhood (unsafe or unsanitary).
- Unhealthy conditions, including, but not limited to, mold or pest infestation.
- Inoperable kitchen or bathroom.
- Little or no insulation.
- Broken or missing windows.
- Temporary housing.
- Inadequate for a person living with disabilities.
- Overcrowding: Inadequate number of bedrooms, as determined by number, ages and gender of household members.
- Homelessness — living with friends or relatives or in temporary housing, including FEMA trailers.
- Cost-burdened: Cost of rent is more than 30 percent of household’s monthly income.
- Applicant is unlikely to qualify for a conventional or government-assisted mortgage loan.
- Government-subsidized housing (e.g., housing authority or Section 8 housing).
- Income range: Gross household income (based on all means of income generated by each adult who makes up the household) should fall below 60 percent and must never exceed 80 percent of the median income for the household size.

I. Approved applicants must be willing to fulfill all the partnership requirements for Habitat homeownership included in the partnership agreement. Furthermore, the affiliate should be equally willing to partner with the applicant. Willingness to partner may be measured by the timeliness, completeness and cooperation with which the applicant responds to homeowner selection-related requests and questions and meets sweat-equity requirements.

Prospective homeowners who apply for Habitat homeownership should never perform more than eight to 10 hours of sweat equity during the application process, so sweat equity is hardly an issue during homeowner selection. However, sweat equity is the centerpiece of the prospective homeowner’s interaction from the time he or she is approved until the day his or her house is dedicated. Therefore, it is appropriate and necessary to ensure that applicant families are well aware of and fully prepared for the sweat-equity requirements.

J. All required partnership agreements should be clearly documented, defined and reviewed with the applicant during the application process. There should be clear communication with the applicant regarding the requirements of each agreement.

Examples of partnership items to be included:

- The applicant provides all application information in a timely, honest manner.
- The applicant meets the sweat-equity requirements as noted in the homebuyer agreement.
- The applicant participates in education sessions as outlined in the homebuyer agreement.
- The applicant pays the down payment and closing costs (if applicable).
- The applicant agrees to avoid new consumer debt during this process.
- The applicant agrees to live where the affiliate has land to build.

- The applicant agrees to notify the affiliate of any change in household composition.
- The applicant agrees to notify the affiliate of loss of income.
- The applicant agrees to notify the affiliate of changes in contact information.

K. Although household income is collected, verified and used to determine eligibility for the homeownership program, it may not always be the same income that is used for ability to pay. The income that is analyzed for ability to pay is the income of the applicant(s) who will be obligated on the loan, and not the entire household, unless they are one and the same.

L. When setting the minimum income needed for acceptance, the affiliate must determine ability to pay based on debt-to-income, or DTI, ratios, credit history and any other factors the affiliate deems appropriate. The ECOA regulations prohibit discrimination based on the source of an applicant's income. A creditor shall not discount or exclude from consideration the income of an applicant or co-applicant because of a prohibited basis or because the income is derived from part-time employment or is an annuity, pension or other retirement benefit. However, a creditor may consider the amount and probable continuance of any income in evaluating an applicant's creditworthiness. If an applicant relies on alimony, child support or separate maintenance payments when applying for credit, the creditor can consider such payments as income to the extent that they are likely to be consistently made and how long they are expected to continue. The ECOA permits Habitat to collect these types of income to determine eligibility for the special-purpose credit program, but applicants must provide consent to the affiliate for this income to be factored into the ability to pay assessment (see the ECOA Notice attached to the Homeownership Application). Note that creditors generally are prohibited from collecting certain information that would result in disclosure of marital or familial status of an applicant, whether directly or indirectly. However, as a special-purpose credit program, affiliates are permitted to request information on marital status for eligibility purposes.

M. Income can be defined in a variety of ways. These guidelines reflect the definitions used by the USDA and many affordable-housing granting agencies. Make any changes to these recommendations that are consistent with the requirements of your financing and subsidy partners.

N. When setting the asset limit, consider when an applicant has sufficient resources to address their housing needs without the assistance of your affiliate and your donors.

O. These ratios are included in HFHI policy and also reflect industry standards for affordable housing.

P. It is important to consider all debt when computing debt-to-income ratios. Any debt obligation, even if not currently paid, can have the impact of an applicant being unable to meet his or her financial obligations. Applicants with excessive debt are not likely to qualify for Habitat homeownership, because such debt will prevent them from being able to make mortgage payments. Bankruptcies, liens and judgments must be considered. Excessive debt may be charge-offs or collections. Applicants with more than $2,000 in charge-offs or collection debt should be referred to credit counseling for debt remediation and invited to reapply at a later date. The board and legal counsel should decide — through an agreed-upon policy that is followed consistently — whether to exclude medical debt from these calculations. As a reminder, medical debt is an outstanding debt that must be repaid. It is important to understand the applicant's plan to repay the debt.

It is important to carefully consider which, if any, debt will be allowed to continue after a mortgage loan is made. Creating a plan that addresses the resolution of outstanding debt during the partnership phase will position an applicant for success as a new homeowner.

Q. This calculation is included in HFHI policy and should not be altered.

R. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 includes regulations instructing organizations selling consumer financial products to avoid Unfair, Deceptive, and Abusive Practices, or UDAAP. These regulations specifically prohibit the marketing and sales of financial products to individuals when the sale or marketing could be considered 'abusive'. The Dodd-Frank Act defines an act or practice as 'abusive' if it **1.** materially interferes with the ability of a consumer to understand a term or condition of a consumer financial product or service; or **2.** takes unreasonable advantage of *a)* a lack of understanding on the part of the consumer of the material risks, costs, or conditions of the product or service; *b)* the inability of the consumer to protect the interests of the consumer in selecting or using a consumer financial product or service; or *c)* the reasonable reliance by the consumer on a covered person to act in the interests of the consumer.

RETURN TO SECTION 5. APPLICATION EVALUATION

Appendix 5: Partnership

A. The deselection criteria are HFHI policy and cannot be amended.
B. The total number of sweaty-equity hours is determined by the affiliate. HFHI policy requires at least 200 hours of sweat equity and at least 100 construction site hours.
C. Certain subsidy providers (e.g., SHOP) require and define a value for sweat equity. Participation in these programs will necessitate an evaluation of affiliate policy and program requirements.
D. If an applicant does not achieve the underwriting standards at application, with support and professional assistance, they may be able to achieve this goal during partnership. Remediating credit should include the services of a professional agency. A disclosure agreement can be signed to allow the agency to share information with the affiliate.
E. Obtaining an e-sign release is federal law. More information on this can be found **here**.

RETURN TO SECTION 6: PARTNERSHIP

Appendix 6: Housing affordability and subsidy

A. **This is HFHI policy and cannot be changed**; see Policy 22 for complete details. Each home sold must be the subject of an appraisal. Appraiser independence must be maintained. This can be achieved by having at least three different appraisers and rotating their use. It would be helpful to have a method that shows an unbiased selection each time an appraiser is needed.

   I. Policy 22 permits affiliates to use an alternative sale price methodology in cases where applicable laws or a funding program dictate.
   II. Under federal law, a buyer has the right to receive a copy of the appraisal used in the loan decision. When Habitat is the lender, this appraisal must be made available. When a third-party lender is used, it is the lender's appraisal that the buyer is entitled to. The appraisal Habitat used to set the sales price should not be made available to the buyer unless it was also used in the lending decision.

B. **This is HFHI policy and cannot be changed.** DTI is capped at a 30 percent/43 percent front-end and back-end ratio, respectively, and can be lowered to ensure that the homebuyer is set up for successful homeownership. The back-end ratio of 43 percent includes the front-end ratio, plus all long-term debt (e.g., car loans, student loans, credit card debt, child support, etc.). See Policy 23 for complete details.
C. **This is HFHI policy and cannot be changed**. Affiliates may grant 40-year terms in certain cases to make the mortgage affordable for the homebuyer. This should be the exception, not the rule. See Policy 22 for complete details.
D. The most effective way to address housing affordability is to extend the term of the mortgage. Habitat has often extended shorter-term mortgages in order to increase the rate at which capital is returned. This will often increase the amount of subsidy required. Careful consideration should be given before reducing the mortgage term below 30 years. (Note: This consideration applies only to affiliates extending first mortgages. Third-party lenders will set their own mortgage terms.)
E. Matching the length of the subordinate mortgage to that of the first assures that the subsidy (a gift of equity) is preserved. In housing markets where affordable subsides are large, this ensures that equity cannot be withdrawn at a rate exceeding the payment of the first mortgage. See the Mortgage Policy Advisory Statement for additional information.
F. Decisions on when the subordinate mortgage is satisfied will be dictated by the local housing market, customs, and the affiliate's position on addressing critical housing needs vs. equity building.
G. For additional information on shared appreciation strategies, go **here**.
H. **This is HFHI policy and cannot be changed.** Affiliates have the option of right of first refusal or right of first offer, whichever is the preferred option. First refusal gives the affiliate the right to match a third-party offer, while first offer gives the affiliate the opportunity to make the first offer when the homeowner sells. An offer does not have to be made, but should be considered to ensure the property remains in the affordable housing stock.
I. Sharing closing costs in a manner consistent with local real estate customs allows for an effective use of community-based "first-time homebuyer" assistance programs in lieu of donor funds or additional borrowing. It is also a best practice to apply prepurchase savings to these closing costs.

RETURN TO SECTION 7: HOUSING AFFORDABILITY AND SUBSIDY

Appendix 7: Sale preparation

A. During the partnership period when the appraisal is ordered to determine fair market value, or FMV, the affiliate should begin preparing for closing. Once all items required for a mortgage application under RESPA/TRID (borrower's name, income, Social Security number, property address, property value and loan amount not subject to TRID) are present, initial disclosures (LE or GFE and Initial TIL Statement, etc.) must be provided within three business days. At that time, affiliates may use Form 1003 to refresh the borrower's information. It is prohibited to require or delay initial disclosures to verify the information on the application.

Non-TRID disclosures
GFE
Initial TIL statement
Special information booklet
Affiliated business disclosures
List of homeownership counseling organizations
Mortgage servicing disclosure statement
Privacy notice
Intent to proceed
Written list of service providers
Applicable state disclosures

TRID
LE
Your home loan tool kit
Affiliated business disclosures
List of homeownership counseling organizations
Privacy notice
Intent to proceed
Written list of service providers

For subordinate mortgages, provide a TIL statement or follow the funder's requirements.

Affiliates may use Form 1003 to refresh the borrower's information. As a reminder, you cannot require or delay providing initial disclosures for the receipt of supplemental documentation to verify the information on the application.

I. If working with a third-party lender who is lending directly to the buyer, the lender will require the borrower to complete a 1003 and will provide all disclosures.

II. If a subordinate lien is required for the sale and Habitat is the lien holder, you must ensure that applicable disclosures are provided in a timely manner.

B. Although not specifically required to obtain a Habitat mortgage, a sales contract is the final opportunity to assure that Habitat (as the seller) and the homebuyer share clear expectations regarding all terms of the sale.

C. When using a third party for mortgage lending, a sales contract is required. Any terms of the sale, if not explicitly outlined in the sales contract, will most likely not be enforceable. Local real estate agents or attorneys can provide guidance on how to prepare this contract.

D. Federal law prohibits "steering," which is when a seller directs a buyer to a particular lender. Habitat can provide a list of lending partners with information regarding the type of mortgage available from that lender, but we cannot require that the borrower use that lender.

E. Under federal law, a buyer has the right to receive a copy of the appraisal used in the loan decision. When Habitat is the lender, this appraisal must be made available. When a third-party lender is used, it is the lender's appraisal that the buyer is entitled to. The appraisal Habitat used to set the sales price should not be made available to the buyer unless it was also used in the lending decision.

F. Habitat is a party to this real estate transaction and therefore should not provide or share legal advice. Applicants are best served by having independent representation.

G. Disclosures required to be provided at closing:

Non-TRID disclosures
HUD-1
Final TIL Statement
Initial Escrow Statement

TRID
CD
Initial Escrow Statement

For subordinate mortgages, provide a HUD-1 and **supplemental subordinate mortgage disclosure** or follow the funder's requirements.

RETURN TO SECTION 8: SALE PREPARATION (RESPA PHASE) AND CLOSING