

**CITY OF MURFREESBORO  
AFFORDABLE HOUSING ASSISTANCE PROGRAM  
POLICIES AND PROCEDURES**

**100. Purpose**

The Murfreesboro Affordable Housing Assistance Program (the Program) encourages homeownership for low-income, first-time homebuyers by providing financial assistance to offset the initial costs of purchasing a single-family dwelling in Murfreesboro. Assistance to eligible homebuyers is provided on a first-come, first-served basis.

**101. Applicability**

Legal authority for the City of Murfreesboro's Affordable Housing Assistance Program is Title I of the Housing and Community Development Act of 1974, Public Law 93-383, as amended. All programs funded by the City's Community Development Block Grant must meet one of the three national objectives: provide a benefit to low- or moderate-income persons; prevent or eliminate slum or blight; meet an urgent community need that threatens the health and welfare of residents. The AHA program provides a benefit to low- and moderate-income persons. Homebuyer downpayment assistance is specifically listed as an eligible activity in 24 CFR 570.201(e). The Program is subject to the regulations of 24 CFR 570, the rules of the Department of Housing and Urban Development and other applicable federal, state and local laws.

The first mortgage lender is responsible for determining whether a lien securing assistance under this program qualifies under the first mortgage.

**102. Administration**

The Program is administered by the City of Murfreesboro Community Development Department in accordance with HUD standards and all applicable City policies and any related working program agreements. The Community Development Director for the city is responsible for overall program compliance.

AHA program policies and procedures, as well as any amendments, must be approved by the City Council. Operational expenses for the Program will be paid from CDBG program funding. The City Council must approve all financial assistance.

**103. Definitions**

**a) Area median income** - Median income as determined by the Department of Housing and Urban Development for the Nashville-Murfreesboro-Davidson Metropolitan Statistical Area.

**b) Debt-to-income ratios** - ratios used to determine whether the borrower can reasonably be expected to meet the expenses involved in homeownership, and otherwise provide for the family. Two ratios are computed by the lender:

**i.) Housing Ratio** – Total mortgage payment expense to income (principal and interest, escrow deposits for taxes and hazard insurance and mortgage insurance payments) in relationship to total effective income.

**ii.) Total Debt Ratio** - Fixed payment to income (total mortgage payment and all recurring charges) in relationship to total effective income.

**c) First-time buyer** – Applicants meeting any one of the following criteria:

1) Applicant(s) who have had no ownership interest in their principal residence within the three years (a full 36 calendar months) prior to the date of application. When an applicant is married, both parties must meet the three-year, first-time homebuyer requirement.

- 2) An individual who is a displaced homemaker and has only owned with a spouse. This is one who has not worked full-time for a full year in the labor force for a number of years but has worked primarily without remuneration to care for the home and family.
- 3) A single parent who has only owned with a former spouse while married.
- 4) An individual who has only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations.
- 5) An individual who has only owned a property that was not in compliance with State, local or model building codes and which cannot be brought into compliance for less than the cost of construction a permanent structure

**d) Grant** – A subsidy which does not require repayment.

**e) Income** - the combined gross annual income (before taxes and other deductions) of each adult member of the household anticipated to be received during the coming 12 months. This includes all wages, social security payments, unemployment benefits, interest and dividend payments, child support, rent royalties and all other income derived from any sources. It does not include educational benefits received from the Veteran’s Administration or income of minors. The methodology used shall be that of the Income and Allowances for the HOME Program as found in Appendix B in the Murfreesboro Housing Rehabilitation Program Policies and Procedures Manual.

**f) Loan** – A subsidy which requires repayment.

**g) Low- and moderate-income household** - an individual or family whose income does not exceed 80% of the area median income adjusted for family size.

**h) Subsidy** - any loan or grant or other transfer of funds from the local Program to a Program recipient.

**i) Very low-income household** - an individual or family whose income does not exceed 50% of the area median income adjusted for family size

#### **104. Program Funding**

Program funding comes from the City of Murfreesboro’s Community Development Block Grant but from time to time may also include other funds available to the city from other funding sources. All Program assistance is subject to funding availability and to approval by City Council.

Funding recaptured through the Program is considered “program income” and must be used to carry out community development activities in compliance with HUD guidelines or those guidelines applicable to the funding source for the housing activity directly related to the recapture.

#### **105. Subsidy Amounts and Terms**

The Program offers three types of subsidies: deferred loans, forgivable/deferred loans and forgivable loans. The deferred loan is available to low- and moderate-income households. The forgivable/deferred loan is available to very-low-income households only. The forgivable loan is available only to buyers purchasing their homes through the Murfreesboro Housing Authority Section 8 to Homeownership Program.

**Deferred loans** may be used for principal reduction and allowable closing costs (see Section 108 - Eligible Mortgage Costs) associated with the first mortgage loan.

Maximum subsidy per household - \$10,000 Household eligibility – low and moderate income Borrower Investment - minimum 1% of sales price

Interest Rate - no interest (0%)

Repayment - Payments Deferred (100% due upon sale or other transfer of title, or if the property becomes vacant or if the owner no longer occupies the home as the principal residence.

**Forgivable/Deferred** loans may be used for principal reduction and allowable closing costs (see Section 108 -Eligible Mortgage Costs) associated with the first mortgage loan.

Maximum subsidy per household - \$10,000

Household eligibility – very-low income

Borrower Investment - minimum 1% of sales price

Interest Rate - no interest (0%)

Repayment – Forgivable portion: 50% of subsidy forgiven at 20% per year during the first five years of occupancy; Deferred portion: 50% due upon sale or other transfer of title, or if the property becomes vacant or if the owner no longer occupies the home as the principal residence.

**Forgivable loans** may be offered to households purchasing through the Murfreesboro Housing Authority Section 8 to Homeownership Program

Maximum subsidy per household - \$4,000

Borrower Investment - minimum of 1% of sales price

Interest Rate - no interest (0%)

Loan Term - Three years based on occupancy

Repayment - Payment required will be pro-rated based on occupancy

The subsidy recommended to the City Council will be an amount equal to the cost indicated on the Good Faith Estimate as allowed by the Program, plus 10 to allow for any error in the estimate, provided the total subsidy shall not exceed the Program maximum.

THERE CAN BE NO CASH BACK TO THE BORROWER AT CLOSING.

#### **106. Eligibility Requirements**

The prospective homebuyer **MUST** meet all criteria required for eligibility by the Policy and Procedures for the Program, including but not limited to the following:

- complete the City’s application for the Program;
- complete homebuyer counseling as required by the Program;
- be an individual or household meeting the income requirements for low-, moderate- or very low-income as determined by HUD;
- be a first-time homebuyer purchasing a single-family dwelling in the City to be occupied by the buyer as the buyer’s principal residence.
- be an eligible applicant for the Program qualifying for a first mortgage loan with ratios not exceeding 35%/45% percent.
- contribute a minimum of 1% of the sales price to the real estate transaction;
- sign a Note and Deed of Trust to the City ensuring repayment and compliance with all terms and conditions of the subsidy.
- A Chapter 13 bankruptcy cannot have been filed in the past 13 months.
- A Chapter 7 bankruptcy cannot have been filed in the past 24 months.
- If a Chapter 13 bankruptcy has been filed in the past five years, the bankruptcy payment plan must have been paid as agreed for at least two years or half the repayment period, whichever is shorter.

#### **107. Eligible Housing Unit**

- A single-family unit to be occupied as the buyer’s principal residence.
- The sale of the unit must have been initiated voluntarily. The single-family dwelling may be vacant if the sale is not initiated and the contract of sale is not negotiated prior to the dwelling being vacant. The seller of a vacant dwelling will be expected to warrant these conditions. Property may be occupied by seller, buyer as a tenant or vacant (no tenant displacement).

- Sales price must be within the limits established by the Program. The Program will use the sales price limits established by THDA for its current Homeownership Program.
- The dwelling must be inside the corporate limits of Murfreesboro.
- The unit must be free of peeling, chipping, flaking or chalking paint, if built prior to 1978. Units must meet the requirements of title 24 of the code of Federal Regulations, Part 35 Subpart K. Evidence must be provided to the City prior to disbursement of funds that properties built prior to 1978 have been inspected by a Housing Quality Standards Inspector, other inspectors trained to identify potential hazards with certifications acceptable to the City or a certified risk assessor. Documentation must be provided to the City evidencing that all requirements of the regulations have been met.

At a minimum the unit must meet City Code standards. A new home must meet the Council of American Building Officials (CABO) 1992 model Energy Code (MEC) for energy efficiency.

**108. Eligible Mortgage Costs**

**The City encourages the seller and others associated with the purchase transaction, including lenders, Realtors and closing agents to offer concessions in costs to the low or very-low-income first-time homebuyer.**

All funding for any homebuyer transaction will be at the discretion of the City, subject to the Community Development Department's underwriting policies, and will provide those first mortgage loan costs approved by the City.

The City will not pay any costs it considers excessive, unusual or unnecessary.

- Commitment fees may not be paid by program subsidy.
- Discount and Origination points cannot exceed 2% when combined.
- No subsidy will be disbursed which exceeds the amount required from the borrower to complete the home purchase as indicated on the HUD-1 Settlement Statement at the time of closing.

THERE CAN BE NO CASH BACK TO THE BORROWER AT CLOSING.

**109. Income**

Affordable Housing Assistance may be given only to households that meet the income requirements for moderate-, low- or very low-income households adjusted for family size as determined by HUD.

Median income guidelines shall automatically change when revised estimates are made and furnished by HUD. A copy of these guidelines is available at the Community Development Office or on the Community Development pages of the City Web site ([www.murfreesborotn.gov](http://www.murfreesborotn.gov)).

In determining applicant eligibility, the methodology used shall be that of the Income and Allowances as determined for the HOME Program (affordable housing resource of the Office of Affordable Housing Programs, Community Planning and Development of the Department of Housing and Urban Development).

**110. Borrower Investment**

All borrowers must invest in the transaction a minimum 1% of the sales price of the property. The borrower investment must be from the borrower's own funds. The borrower investment may not be paid by the seller or through a gift letter. Sweat equity may be considered as borrower's funds to the extent acceptable under FHA mortgage guidelines.

The borrower may have transaction expenses such as the costs of the credit report, the appraisal fee and earnest money that are paid prior to closing. These costs may be credited to the required 1% investment of the borrower or and may reduce the subsidy allotment.

If the borrower invests more than the required amount, the surplus investment will be used to reduce the cost to the City at closing. Should there be a need for a reimbursement from the buyer proceeds at closing, it should be made payable to the City of Murfreesboro.

THERE CAN BE NO CASH BACK TO THE BORROWER AT CLOSING.

**111. Sales Price**

For the purpose of the Program, unless otherwise established by the City, the maximum sales price for homes purchased will be the limits currently in effect for the Tennessee Housing Development Agency (THDA) Homeownership Program. Sales price limits shall automatically adjust as revisions to the Homeownership Program become effective.

The contract sales price as shown on the HUD-1 Settlement Statement must coincide with the sales price stated on the Contract for Sale of Real Estate. The first mortgage loan amount must be based on the lesser of the sales price or appraised value.

**112. Counseling and Education**

All applicants must complete the homebuyer counseling session as established for the current Program. A certificate indicating completion of the required homebuyer counseling will be issued to the applicant.

**113. Application**

All applicants must complete a City Affordable Housing Assistance Application.

Any person may pre-qualify for eligibility based on household income. An application with the City will be required. The applicant or first mortgage lender must supply the City with a completed first mortgage loan application, and a Good Faith Estimate indicating the total amount of expected mortgage financing costs associated with the buyers purchase. The applicant will be required to provide proof of income and other documentation required by the City to determine if the applicant qualifies for the AHA Program based on household income. Determination of qualification shall not be considered as approval for disbursement of subsidy.

**114. Application Process**

Any person interested in the AHA Program should contact the Community Development Department to schedule an appointment for completion of an application. An application must be completed. The applicant must provide all required documentation to support the information in the application before the City can make a determination of eligibility and a recommendation for subsidy. The City reserves the right to request any additional documentation or information needed to make a sound underwriting decision.

The first mortgage lender or other sources may be contacted to supply information to the City. Request from the City for information will only be made with authorization by the applicant. Processing the application can generally be completed within thirty days of application.

The City will continue to process the application for assistance prior to the lender submitting the completed first mortgage loan underwriting package to the City. Upon completion of processing, the Community Development Director will review the information and make a determination of the applicant's eligibility. A signed form by the Director indicating approval or denial will be placed in the file.

The City Council must approve the amount of subsidy for each homebuyer transaction. The Community Development Department will send the Council a letter with a funding recommendation. If waiting until the next meeting of the City Council will delay the closing unreasonably, the Community Development Director may make a recommendation to the City Manager to approve the City's subsidy. If the transaction is approved using this method, it will be reported to the City Council at its next meeting.

Prior to the closing of the real estate transaction the first mortgage lender must submit to the City a complete copy of the underwriting documents obtained by the lender for approval of the first mortgage loan. The documents must include the executed first mortgage loan application (to be used as an attachment to the city's application) an appraisal, credit report, employment verification, and financial information. All documents required for compliance by HUD, the City and other funding sources must be in the applicants file.

#### **115. Underwriting**

All determinations for recommendation and approval of subsidies will be made in accordance with HUD standards and the criteria as established by the City with this policy for the Program. Determination for subsidy approval will be at the discretion of the City. Compensating factors may be used by the City in making an underwriting decision. Compensating factors considered for assessing a borrower's eligibility will typically be those permissible by FHA as found in the published directives by FHA for mortgage credit analysis. Documentation regarding all applications will be kept on file in accordance with compliance guidelines of HUD, the City and the funding source for each transaction.

Following is a list of documentation that may be requested for processing and underwriting the application. The City may require additional information and documentation.

- Complete City Affordable Housing Assistance Application
- Complete First Mortgage Loan Application with a lender of the applicant's choice
- Proof of income and other documentation necessary to determine eligibility of applicant
- Contract of Sale
- Good Faith Estimate (indicating total estimated funds required for closing and first mortgage terms)
- First mortgage qualifying ratios not to exceed 35%/45%
- First mortgage Underwriting and Transmittal Summary and /or Mortgage Analysis Worksheet
- Copy of recent credit report
- Verification of Employment (provided by the first mortgage lender)
- Copy of buyer's two most recent tax returns
- Court documents relating to either divorce settlements, judgments or other matters to be considered in underwriting for the Program.
- Survey of property (provided by the first mortgage lender)
- Appraisal of property (provided by the first mortgage lender)
- Evidence of homeowners insurance with the City named in the loss payable clause
- Documentation for disabled household member - disability benefits from Social Security, a pension program, life insurance program, or a total or partial physical impairment which renders the person unable to work. Where there exists a reasonable question, a doctor's certification may be used.

#### **116. Reserved**

#### **117. Closing**

The City requires the HUD-1 Settlement Statement, legal description and any documents pertinent to the real estate closing required by the City be presented to the Community Development Office three working days prior to closing. Documents may be mailed, hand-delivered, or faxed. Accurate copies must be in the office during regular business hours. Documents received after regular business hours will be ascribed to the subsequent workday and the timetable attributed to that day. Office hours are Monday through Friday, 8:00 a.m. - 4:30 p.m.

All documents prepared by the City and recorded by the closing agent shall be factored into settlement costs on the HUD-1.

**118. Mortgage Products**

Any lender may participate in the Program.

First mortgage loans used in conjunction with the assistance offered by the City must be at a fixed rate and fully amortizing. The first mortgage loan repayment must include escrow for property taxes and homeowner insurance.

Applicants are encouraged to shop for a loan by comparing terms and fees offered by different lenders. First mortgage loan products offering the greatest affordability to the homebuyer using the City Affordable Housing Assistance Program are recommended.

Mortgage products requiring a minimum principle reduction as a down payment and that allow other eligible parties to pay costs involved with the settlement are suggested for the applicant. In the event these options are not available to the buyer, assistance will be extended as allowed by the policy.

Those mortgage loans made in conjunction with the Tennessee Housing Development Agency are viewed as economically desirable for assistance provided by the City. FHA insured loans, Veterans Administration and affordable conventional loans are considered to offer affordable housing opportunities to low and very low-income households.

**119. Occupancy Requirement**

Funding from this program will be limited to owner-occupied principal residences. The property is not to be rented to another household. The owner may not vacate the property without clear intent to return as occupant. Occupancy by the homeowner must reoccur within sixty days of the original vacancy date to prevent the unamortized portion of the City subsidy from being immediately due and payable. If the owner rents, sells or vacates the property prior to the satisfaction of the Note and Deed of Trust, the unpaid portion of the City subsidy with any accrued interest will be immediately due and payable.

**120. Enforcement of Conditions**

At a minimum, on the date of closing all beneficiaries of the Program must sign a Note made payable to the City of Murfreesboro, a Deed of Trust to be recorded at the Register's Office of Rutherford County, Tennessee and a Compliance Agreement. The Deed of Trust enforces the Note, restricts the use of the property for a specified period of time and ensures compliance with other terms and conditions.

All conditions for purchase assistance must be met and maintained as agreed upon or the entire unamortized portion of the subsidy is immediately due and payable.

**121. Subordination**

Request from any Program beneficiary for subordination of a lien must meet the criteria and follow the procedure outlined in the City policy guidelines for subordination.

**122. Payoff**

A request for payoff must be submitted in writing by the borrower or professional agent involved with the payoff transaction to the Community Development Department. The City will accept payoff requests that are mailed, hand delivered or faxed. All payoff statements issued by the City must be approved and signed by the Community Development Director.

**123. Grievance or Complaint**

The Community Development Director and/or the Assistant City Manager will handle any grievance or complaint.

**124. Final Disposition of Funds**

Should the Program cease to exist, any remaining CDBG funds will be reallocated to other eligible activities. Any other funding will be reallocated as determined by the funding source or the City Council.

For additional information regarding the Affordable Housing Assistance Program please call the Community Development Office, 890-4660, or visit the City Web site ([www.murfreesborotn.gov](http://www.murfreesborotn.gov)).

**125. Compliance – Forgivable Loans**

In consideration of receiving direct subsidy funds from the City for assistance in the purchase of a home through the Section 8 to Homeownership Program of the Murfreesboro Housing Authority, the borrower(s) must maintain ownership and reside in the property as their primary residence for a period of three (3) years from the date of the recording of the City's Deed of Trust.

The City must be given notice of any sale or refinancing of the unit occurring prior to the end of the compliance period.

In the case of a sale prior to the end of the compliance period, the buyer must repay the unamortized portion of the subsidy.

In the case of a refinancing prior to the end of the Compliance Period, resulting in a pay off to the City, the buyer shall repay the unamortized portion of the subsidy.