

# City of Newton Downpayment / Closing Cost Assistance Program GUIDELINES



## City of Newton Downpayment / Closing Cost Assistance Program

### *Program Guidelines*

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# City of Newton Downpayment / Closing Cost Assistance Program

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### PROGRAM SUMMARY

The City of Newton Downpayment/Closing Cost Assistance Program (Program) provides income-eligible first-time homebuyers with financial assistance to support the purchase of new and existing deed-restricted homeownership units in Newton. The Downpayment/Closing Cost Assistance Program assists first-time homebuyers in securing mortgage financing for the purchase of a home, while preserving the financial assets of homeowners. The goal of the Program is to expand and support sustainable homeownership among low- and moderate-income households in Newton.

Specific programmatic standards must be satisfied in order to be eligible for assistance. Program grants of \$10,000 may be used toward the downpayment and related closing costs of a deed-restricted home in Newton that will be occupied by qualified buyers as their primary residence.

### PROGRAM ELIGIBILITY

A successful program applicant will meet the following criteria:

Prior to Program Application, the applicant will have won a lottery for an affordable, deed-restricted housing unit in Newton AND

- Classified as a First-Time Homebuyer
- Household Income at or below 80% of area median income
- Liquid assets do not exceed \$75,000
- Debt-to-Income Ratios are within Program's ranges
- Has completed Pre-Purchase Homeownership Counseling and agrees to complete Post-Purchase Homeownership Counseling.

#### A. First-Time Homebuyer Status

In order to be eligible for the Program, members of the household must be a First-Time Homebuyer. A First-Time homebuyer is one that has not owned a home in the past three years, with the exception of:

1. Displaced homemakers, where the displaced homemaker (an adult who has not worked full-time, full-year in the labor force for a number of years but has, during such years, worked primarily without remuneration to care for the home and family), while a homemaker, owned a home with his or her partner or resided in a home owned by the partner;
2. Single parents, where the individual owned a home with his or her partner or resided in a home owned by the partner and is a single parent (is unmarried or legally separated from a spouse and either has 1 or more children of whom the individual has custody or joint custody, or is pregnant);

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3. Households where at least one household member is 55 or over;
4. Households that owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations; and
5. Households that owned a property that was not in compliance with State, local or model building codes and that cannot be brought into compliance for less than the cost of constructing a permanent structure.

### **B. Income Eligibility**

In order to be eligible for the Program, a household's income must be within the 80% area median income (AMI) limit applicable to Newton, as defined by the U.S. Department of Housing and Urban Development. Income from all household members 18 years of age or over must be included, with certain exclusions. The 80% income limits are included in the table below:

<b>HH Size</b>	<b>1 - Person</b>	<b>2-Person</b>	<b>3-Person</b>	<b>4-Person</b>	<b>5-Person</b>	<b>6-Person</b>
80%AMI Income Limit	\$70,750	\$80,850	\$90,950	\$101,050	\$109,150	\$117,250

2021 HUD Income Limits

For the purposes of determining eligibility based on income, household income will be calculated in accordance with 24 CFR 5.609.

### **C. Asset Limits**

There is a maximum asset limitation of \$75,000 (post-purchase) for participation in the Program. In order to be eligible to receive a grant through the Program, household liquid financial assets must not exceed \$75,000. Liquid financial assets include: checking accounts; savings accounts; certificates of deposit; stocks and bonds; mutual funds and other investment accounts; whole life insurance; and cash on hand.

Excluded from this asset test are individual retirement plans (IRAs), employer sponsored retirement plans (401(k), 403(b), 457(b)); retirement plans for self-employed individuals and small business owners (SEP IRA, 401(k), etc.).

### **D. Debt-to-Income Ratio**

A full underwriting analysis will be completed as part of the eligibility determination to establish if the homeowner can achieve financial stability and sustainability after the purchase of the home. After inclusion of the receipt of financial assistance through the Program, borrowers must not exceed a 35% Housing-to-Income (HTI) Ratio and a 45% Total Debt-to-Income (DTI) Ratio. The HTI is the ratio of the applicant's complete monthly mortgage payment consisting of principal, interest, taxes, insurances and condominium/homeowner association fees ("PITI") to

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the applicant's total gross monthly income. The DTI includes all debt, including the PITI, student loans and consumer debt.

### **E. Housing Counseling**

Households participating in the Program will be required to complete a pre- and post-purchase homebuyer education class from a counseling agency approved by the United States Department of Housing and Urban Development (HUD). HUD approved counseling agencies can be accessed at the following website:

<https://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>

Pre-purchase counseling must be completed prior to the execution of a Purchase and Sale Agreement for the unit. Post-purchase counseling must be completed within six-months of moving into the unit.

## TERMS OF ASSISTANCE

The Downpayment/Closing Cost Assistance Program will provide grants not to exceed \$10,000, to low-and-moderate income households for the purchase of deed-restricted affordable housing units if applicants meet the prescribed programmatic guidelines. The grant is conditioned upon the execution and successful recording of the Declaration of Restrictive Covenants at the South Middlesex, MA, Registry of Deeds, and receipt of fully executed grant agreement and settlement statements.

## UNIT ELIGIBILITY

Financial assistance through the Program is limited to the purchase of new or existing deed restricted, affordable housing units in Newton.

A Housing Quality Standards (HQS) inspection must be completed to ensure the property meets state and federal housing codes and safety standards.

## APPLICATION PROCESS

If an applicant is chosen from the lottery to purchase the affordable housing unit, then they may submit the Downpayment/Closing Cost Assistance Program Application. The entire application process may take between 45 to 60 days to complete, prior to closing on the unit.

### **A. Approval of Program Grant**

Once the Program Application is received with all requested documents, the Housing and Community Development Division will review the application and mail the client a letter to inform the applicant if their application has been approved. The applicant should immediately share this

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approval letter with the mortgage lender so that the grant funds can be calculated into the closing documentation.

The approval letter outlines any contingencies identified and must be signed by applicant. The signed approval will constitute the written agreement between the City of Newton and the applicant, thereby allowing Housing and Community and Development to proceed with the funding agreement and a check for the grant funds for the downpayment/closing cost assistance and any administrative costs associated with this project.

The applicant must allow at least (30) days from receipt of the approval letter when scheduling their closing. This timeframe allows for adequate time to process the necessary documents and release of funds.

### **B. Closing & Release of the Grant**

The City of Newton will provide the lender and closing attorney with detailed closing instructions once the applicant has agreed to the terms of the approval letter and the assistance amount. When the mortgage lender is ready to fund and close the loan, the following must be completed to receive downpayment/closing cost assistance:

- 1) The mortgage lender provided the City with a draft Closing Disclosure listing the Program grant prior to closing. The lender will provide a final executed Closing Disclosure after the closing listing the separate amounts applied to Downpayment and to the Closing Costs.
- 2) The applicant executes a funding agreement for the grant.
- 3) Grant funds will be issued to the closing attorney. A W-9 of the closing attorney must be provided to the City 1-2 weeks prior to closing to establish them as a valid payee in the City's payment system. A 1099 will not be issued to the attorney for this check.
- 4) The City of Newton will arrange for the check to be available for the closing.
- 5) The buyer cannot be reimbursed for prior expenses or receive any excess funds with the grant funds.

### **APPLICATION PROCESS**

All households that are selected to purchase an affordable deed-restricted unit and apply to receive Downpayment/Closing Cost Assistance, must submit the "City of Newton Downpayment/Closing Cost Assistance Application." All applicants must also submit the required documentation detailed below. Households who fail to provide **all of the required documentation** will not be reviewed for eligibility for the Program. Please note you do not need to provide documentation that is not applicable to your household. For example, a household that does not have a household member who is self-employed, does not need to provide documentation of self-employment income.

1. **Complete application** signed by all individuals over the age of 18;

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2. **Copy of paystubs for five most recent pay periods** for all individuals over the age of 18; if you are paid weekly, this will include the past five weeks; if you are paid biweekly, this will include the past ten weeks; if you are paid monthly, this will include the past five months;
3. **Documentation of self-employment and business income**, including most recent quarterly tax filings and tax returns for the three most recent years filed;
4. **Current statements or other documentation for all other sources of income** that show payment amounts received for all household members listed on the application. Other income sources include: alimony, child support, Social Security benefits, income received from pensions, unemployment compensation, workman's compensation, disability or death benefits and any other form of income. Please see **Attachment A** for more detail about what is included as income;
5. **Copy of 2020, 2019 and 2018 federal and state tax returns, as filed, with W-2s, 1099** and all schedules for every current or future person living in the household over the age of 18;
6. **Three most recent statements** for all asset accounts showing account balance/value, dividends/interest earned, and a record of all transactions for the statement period for all individuals over the age of 18;
7. **No Income Statement, signed and notarized**, for any household member over 18 with no source of income, if applicable;
8. **No Child Support Statement, signed and notarized**, if applicable, containing the language "Under penalties of Perjury," if applicable;
9. **Signed Purchase and Sale Agreement;**
10. **Certificate of Completion of First Time Homebuyer Course;**
11. **Lender Commitment Letter;** applicants must obtain primary fixed interest rate mortgage financing;
12. **Mortgage Loan Application;**
13. **Credit Report;**
14. **Loan Estimate from Lender;**
15. **Draft Closing Disclosure**



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### FAIR HOUSING

It is the policy of the City of Newton that each person shall have equal access to and equal opportunity in housing, regardless of race, color, religion, national origin, disability, age, sexual orientation, gender identity or expression, marital status, familial status (families with children under 18), public assistance (including rental vouchers), genetic information, or military status.

Applicants requiring a reasonable accommodation to access the Program should contact the City of Newton's ADA/Sec. 504 Coordinator, Jini Fairley, at [jfairley@newtonma.gov](mailto:jfairley@newtonma.gov) or (617) 796-1253. The City's TTY/TDD direct line is: 617-796-1089. For the Telecommunications Relay Service (TRS), please dial 711.

**Please contact Malcolm Lucas with any questions regarding program eligibility or the application and application process:** Malcolm Lucas, Housing Planner: 617-796-1149 or [mlucas@newtonma.gov](mailto:mlucas@newtonma.gov). *Please note that I am working remotely with access to email and voicemail. If you want a phone response, please allow blocked calls to be received on your phone service.*

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### ATTACHMENT A: DETERMINING INCOME ELIGIBILITY

In order to be eligible for Program assistance, beneficiaries must meet income limits established by HUD (See Attachment B: Income Limits). Under the Program, annual income is defined in 24 CFR 5.609 which is used by a variety of federally-assisted programs. The Part 5 definition of annual income is the gross amount of income of all adult household members (over 18) that is anticipated to be received during the coming 12-month period. The table below details what is included and what is excluded in determining a household's income.

#### Calculating annual income: Inclusions and Exclusions

Sources of income 24 CFR 5.609 (b)	Sources of income that are included in calculating household income
<b>1. Income from wages, salaries, tips, etc.</b>	The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services. Overtime earnings must be based upon the average of the year to date and projected over the next 12 months.
<b>2. Business income</b>	The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income
<b>3. Interest and dividend income</b>	Interest, dividends, and other net income of any kind from real or personal property. If assets in excess of \$5,000, annual income shall include the greater of the actual income derived from all net family assets or a % of the value of such assets based on the current passbook savings rate, as determined by HUD.
<b>4. Retirement and insurance income</b>	The full amount of periodic amounts received from SS, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount.
<b>5. Unemployment and disability income</b>	Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay (except as provided in number 3 of Income Exclusions).
<b>6. Welfare assistance</b>	If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income.
<b>7. Alimony, child, gift support,</b>	Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling.
<b>8. Armed Forces</b>	All regular pay, special day and allowances of a member of the Armed Forces.

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<b>Sources of income</b> 24 CFR 5.609 (c)	<b>Sources of income that are excluded from calculating household income</b> <i>(Partial list. Other exclusions include reparations; income from full-time students; adoption assistance payments; deferred periodic social security and SSI benefits; property tax refunds; home care assistance and other federal exclusions.)</i>
<b>Income of children</b>	Income from employment of children (including foster children) under the age of 18 years.
<b>Foster Care payments</b>	Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
<b>Inheritance and insurance income</b>	Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses (except as provided in number 5 of Income Inclusions).
<b>Medical expense reimbursements</b>	Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
<b>Income live-in aides</b>	Income of a live-in aide (as defined in 24 CFR 5.403).
<b>Gifts</b>	Temporary, nonrecurring, or sporadic income (including gifts).

**Glossary**

**Asset:** a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit.

**Closing:** Also known as settlement, the finalization of the process of purchasing or refinancing real estate. The closing includes the delivery of a Deed, the signing of Mortgage documents and the disbursement of funds.

**Closing Costs:** Costs that are paid at closing, in addition to the purchase price of the property. These costs normally include, but are not limited to, origination fees, discount points, attorney's fees, costs for title insurance, surveys, recording documents, and prepayment of real estate taxes and insurance premiums held by the lender. Sometimes the seller will help the borrower pay some of these costs.

**Closing Disclosure:** Five-page form that provides final details about the mortgage loan you have selected. It includes the loan terms, your projected monthly payments, and how much you will pay in fees and other costs to get your mortgage

**Closing Statement:** An accounting of the debits and credits incurred at closing. All FHA, VA and Conventional financing loans use a Uniform Closing or Settlement Statement commonly referred to as the HUD-1.

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**Credit Report:** A document completed by a credit-reporting agency providing information about the buyer's credit cards, previous mortgage history, bank loans and public records dealing with financial matters.

**Debt to Income Ratio:** Compares the amount of monthly income to the amount the borrower will owe each month in house payment (PITI) plus other debts. The other debts may include but are not limited to car payments, credit cards, alimony, child support, and personal loans. This ratio is commonly used to see if the borrower has the capacity to repay the debt.

**Down Payment:** The part of the purchase price which the buyer pays in cash and does not finance with a mortgage.

**Fair Housing Act:** Prohibits the denial or variance of the terms of real estate related transactions based on race, color, religion, sex, national origin, disability, or familial status of the credit applicant. Real estate related transactions include a mortgage, home improvement, or other loans secured by a dwelling.

**Financial Statement:** A summary of facts showing an individual's or company's financial condition. For individuals, it states their assets and liabilities as of a given date. For a company it should include a Profit and Loss Statement (P&L) for a certain period of time and a balance sheet, stating assets and liabilities as of a given date.

**Fixed Rate Mortgage:** The type of loan where the interest rate will not change for the entire term of the loan.

**Gross Income:** A person's income before deduction for income taxation.

**Housing Expense Ratio:** Ratio used to determine the borrowers capacity to repay a home loan. The ratio compares monthly income to the house payment (Principal, Interest, Taxes and Insurance).

**Loan-to-Value (LTV):** The ratio of the total amount borrowed on a mortgage against a property, compared to the appraised value of the property. A LTV ratio of 90 means that the borrower is borrowing 90% of the value of the property and paying 10% as a down payment. For purchases, the value of the property is the lesser of the purchase price or the appraised value. For refinances the value is determined by an appraisal. The ratio, expressed as a percentage, of the amount of the loan (numerator) to the value or selling price of real property (denominator). For example, if you have an \$80,000 1st mortgage on a home with an appraised value of \$100,000, the LTV is 80% ( $\$80,000 / \$100,000 = 80\%$ ).

**Median Income:** The middle-income level. Half of the incomes would be higher than the median income and half of the incomes would be below the median income. This is not to be confused with an average income.

**Mortgage:** The written instrument used to pledge a title to real estate as security for repayment of a Promissory Note.

**Owner-Occupied Property:** The borrower or a member of the immediate family lives in the property as a primary residence.

**Purchase and Sale Agreement:** A written agreement between a buyer and seller of real property, which states the price and terms of the sale.

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**Settlement Statement:** Also referred to as a HUD-1/ALTA Settlement Statement. The complete breakdown of costs involved in the real estate transaction for both the seller and buyer.

**Underwriting (Mortgage Loans):** The process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's credit worthiness and the quality of the property itself.