Pikes Peak Habitat for Humanity®

Homeowner Selection/ Mortgage Origination Policy Handbook

Table of contents

Template introduction..........

Table of contents ii

1. Introduction 1

1.1. Background 1
1.2. Purpose 1
1.3. Scope 1
1.4. Owner 1
1.5. Approver 1
1.6. Review frequency 1
1.7. Acronyms and abbreviations contained in this document 2

2. Homeowner services team 3

2.1. Homeowner selection team qualifications 3
2.2. Training 3
2.3. Confidentiality/privacy 4

3. Homeowner recruitment 5

3.1. Application outreach 5
3.2. Marketing materials 5
3.3. Nondiscrimination 5

4. PPHFH homeownership application (ECOA phase) defined 6

4.1. Application package 6
4.2. ECOA “completed application” defined 6
4.3. Allowable fees 6

5. Application evaluation 7

5.1. Nondiscrimination 7
5.2. Application status update 7
5.3. Completed ECOA application 7
5.4. Excess applicants 7
5.5. Declined applicants 8
5.6. Background screening 8
5.7. General selection criteria 8
5.8. Record retention 8
5.9. Residency 8
5.10. Financial evaluation 9
5.11. Physical living condition evaluation 9
5.12. Willingness to partner 10
5.13. Ability to pay 10
5.14. Income (4M) 10
5.15. Assets (4N) 11
5.16. Debt-to-income ratio (4MIV) 11
5.17. Credit (4GIIII) 11
5.18. Rental verification and monthly payment consistency 12
5.19. Mortgage calculations (4MX) 12

6. Partnership 13

6.1. Deselection 13

6.2. Adverse action 13
6.3. Sweat equity 13
6.4. Electronic communication (5D) 13

7. Housing affordability and subsidy 14

7.1. Housing price 14
7.2. Affordability 14
7.3. Subsidy 14
7.4. Shared appreciation strategy (8A) 14
7.5. First right to purchase 14
7.6. Closing costs 15

8. Sale preparation (RESPA phase) and closing 16

8.1. Sale preparation 16
8.2. Mortgage application/final evaluation 16
8.3. Sales contract 16
8.4. Closing 166

Appendix 1: Homeowner services team 177
Appendix 2: Homeowner recruitment 19
Appendix 3: PPHFH homeownership application (ECOA phase) defined 20
Appendix 4: Application evaluation 21
Appendix 5: Partnership 30
Appendix 6: Housing affordability and subsidy 32
Appendix 7: Sale preparation 34
Appendix 8: Right of Repurchase and Shared Appreciation Policy 36

1. Introduction

1.1. Background

With increased scrutiny and regulations in the mortgage industry, it is important for Habitat for Humanity affiliates to strengthen their lending practices. This policy handbook and accompanying guidance handbook will help affiliates improve their 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 must be added to make a comprehensive policy.**

1.2. Purpose

The policy templates in this handbook consist of key processes in Homeowner Selection/Mortgage Origination for Habitat affiliates. They set out established principles and practices to guide affiliates 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.

Pikes Peak Habitat for Humanity, Inc. (hereinafter referred to as "**PPHFH**" in the policy documents) commits to complying with each policy. If an exception is required, the board or a board designate 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 all homeowner services, including selection, support and committee personnel.

1.4. Owner

Director of Homeowner Services.

1.5. Approver

Board of Directors.

1.6. Review frequency

As policy changes

October 7, 2019

1.7. Acronyms and abbreviations contained in this document

AMI: Area median income
AML: Anti-money laundering
CD: Closing disclosure
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: PPHFH for Humanity International
INOI: Informational Notice of Incompleteness
LE: Loan estimate
NMLS: Nationwide Multistate Licensing System
NOI: Notice of Incompleteness
NPI: Nonpersonal information
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

PPHFH 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. **(1B)**

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

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

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

    I. The existence of current outstanding judgments, tax liens or other government liens.
    II. Nonpayment of child support.
    III. A pattern of bankruptcies, foreclosures or delinquent accounts.

  IV. Assess character and general fitness by considering relevant factors such as:

    I. Acts of unfairness or dishonesty.
    II. Dishonesty in the course of seeking employment.
    III. Dishonesty concerning qualifications.
    IV. Disciplinary actions by regulatory or professional licensing agencies.

  V. Annually complete state and federal mortgage law training. **(1B)**

    I. Required 12-couse American Bankers Association (ABA) training provided by HFHI.
    II. Additional training and resources through HFHI.
    III. Pre-licensing and continuing education for state-licensed NMLS loan originators.

  VI. Oversight for this process will be managed by the Executive Director/CEO. **(1D)**

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. **(1C)**

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

3. Homeowner recruitment

3.1. Application outreach

PPHFH will market throughout the geographic service area (El Paso County), or GSA, to recruit qualified applicants.

A. We will recruit prospective homeowners at least one time each calendar year on a schedule that coordinates with the construction schedule. The open application period duration is at least one week long(2A)
B. Applications are available in the office, on the website, and in the ReStore during the open application period.
C. Applications will be distributed at community, orientation and application 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 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 PPHFH 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

PPHFH commits to treating all applicants in an equal manner. The following attributes will NOT factor into any action for the PPHFH 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) additionally, state laws include: Creed, transgender status.

To fulfill grant requirements, we may target consumers who are elderly or who have a disability, but we will not limit housing solutions to people with these characteristics. Occasionally, PPHFH may open special homeownership or repair programs that require slightly different eligibility criteria than what is described above. For example, special grants may offer PPHFH the opportunity to serve a very low income bracket and PPHFH may wish to limit such a program only to those with very low incomes (i.e. 25-35% Median Family Income). In such instances, the eligibility criteria may be altered on a case-by-case basis for specific programs, as long as the revised criteria still includes the three basic criteria required by HFHI and all relevant federal and local laws and regulations. Revisions to the eligibility criteria for special programs will occur in consultation with the Committee and with approval by the Board.

4. PPHFH homeownership application (ECOA phase) defined

PPHFH will provide an application package to each consumer who requests one during the application period. The application will serve to evaluate one's qualification for the PPHFH 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.
- ECOA Special Purpose Credit Program Notice.
- Initial privacy notice. **(3C)**
- E-Sign Act Disclosure.
- Right to Receive Copy of Appraisal Disclosures. (3E)
- 4506-T.
- Borrower's authorization.
- Application meeting schedule.

4.2. ECOA "completed application" defined

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

- A completed application.
- Income documents. **(5.13)**
- Signed background screening release. **(3B)**
- Third-party consumer report release. **(3G)**
- Signed ECOA Special Purpose Credit Program Notice. **(3B)**
- Signed E-Sign Act Disclosure. **(3D)**
- Evidence of orientation meeting attendance.
- Signed 4506-T. **(3F)**
- 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. Allowable fees

PPHFH will 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, **PPHFH** will evaluate each application to determine qualifications for "need for housing," "willingness to partner" and "ability to pay."

5.1. Nondiscrimination

PPHFH 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 PPHFH 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 household income requirements based on the U.S. Department of Housing and Urban Development, or HUD, income guideline for PPHFH area median income, or AMI; GSA affiliation; or legal U.S. residency is not met, the application will be referred to the QLO to issue an adverse action notice within 30 calendar days of receipt. **(4B)**
   III. If it is determined that the application requires more information from PPHFH in order to complete the assessment, it will be referred to the QLO to issue an adverse action notice **(4B)** or a notice of incompleteness, or NOI, that identifies outstanding items **(4G)** 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. **(4G)**

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

5.3. Completed ECOA application

All completed applications, as defined by **PPHFH** 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. If all is equal the **date** that the application and **all** required documentation submitted will be the deciding factor as to who is recommended to the Board for approval.**(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)

5.6. Background screening

Each applicant and co-applicant will be screened for criminal history in the sex offender national database and nationwide criminal history records. (4C)

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

B. PPHFH, 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 PPHFH 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. PPHFH reserves the right to recheck status at any time during the homebuilding process.

5.7. General selection criteria

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

A. Need for housing (Policies 5.10 and 5.11)
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. Record retention (4F)

A. All physical PPHFH applications, and mortgage files containing sensitive information will be stored in locked filing cabinets in a secure location. Only specific employees who use the files, such as the Director of Homeowner Services, the Executive Director, the Director of Finance and other authorized staff, will have access to these files.

B. All electronic PPHFH applications, and mortgage files containing sensitive information will be stored on PPHFH's password-protected and secure server.

C. Denied and incomplete applications for PPHFH's affordable homeownership will be retained for a period of 25 months from the date the applicant was notified of the decision.

D. Active mortgage files held by PPHFH will be retained for the entire life of the loan. Inactive/closed mortgage files that have been sold by PPHFH, transferred, paid-in-full through scheduled payments or sale, foreclosed, satisfied with a Deed in Lieu of Foreclosure or written off will be retained for a period of seven (7) years.

All applications will be retained for 25 months (current policy 36 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.

5.9. Residency

A. PPHFH encourages all interested consumers to apply for its housing program who have resided in El Paso County for at least one full year prior to application date. Supporting Documentation may include: U.S.

Certificate of Birth, unexpired U.S. Passport, certificate of naturalization, unexpired Lawful Permanent Resident Card (“Green Card”). (4J)

B. PPHFH will restrict its program to U.S. citizens and permanent residents. At the time of application, the applicants(s) must be legal, permanent resident status of the United States. If applicant(s) are permanent, legal residents, then PPHFH must evaluate whether the income will last for at least three years. If applicant(s) are not permanent, legal residents, this will constitute immediate ineligibility based on an inability to pay. For any spouse, domestic partner, or individual family member of the applicant who wants to be on the Deed of Trust and Note, but is not providing income, the individual will have to be a legal, permanent resident of the United States. In brief, an individual who does not hold Permanent US Resident status will not be permitted to purchase the house and cannot be on the Deed of Trust and Note. (4I)(4J)

5.10. Financial evaluation

PPHFH 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 (4KI)
B. AMI (4KII)
C. Household income (4KIII)
D. Cost-burden analysis (4P)

5.11. Physical living condition evaluation

This evaluation will include an analysis of the following and a home visit (4U):

A. Serious health challenges:[1]

I. Carbon monoxide.
II. Pest infestation.
III. Presence of lead, mold, radon.
IV. Allergens for those affected.

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. Overcrowded:[3] (4O)

I. More than two people per bedroom.

[1] These health issues are provided by HUD.

[2] HUD provides this definition of substandard housing.

[3] Census Bureau definition

II. Children of opposite genders do not share a bedroom.
III. Children of the same gender who share a bedroom do not have an age difference that exceeds five years.
IV. Alternate definitions use for overcrowding are available from the Census Bureau.

D. Cost-burden: (4P)

When an applicant pays over 30 percent of their gross income for housing (not including utilities) 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.

E. Government-subsidized housing:

PPHFH has often used occupancy in government-subsidized housing as a definition of need. Although the conditions may be adequate, there are families who are not in a position to purchase a PPHFH home but who could take advantage of this limited resource if an eligible family moved on. Local availability and need should be considered before adding this requirement.

F. Homelessness:[4]

I. Lacking a fixed, regular and adequate nighttime residence.
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 our relationship. Applicants to PPHFH homeownership program will evidence a "willingness to partner" by agreeing to meet all the obligations outlined in the current partnership agreement. **(4KIV)** Failure to meet those agreements in the time frames identified will result in deselection/denial from the program.

5.13. Ability to pay

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

5.14. Income (4KVII)

A. Employment income: **(4KVI)**

I. A two-year history of employment will be verified for full- and part-time employment.
II. Part-time employment will be considered if it has been ongoing for the previous two years and the employer states it is likely to continue.
III. Overtime, bonus and commission income will be included if it has been consistent for two years and the employer states that it is more than likely to continue into the future.
IV. Self-employed income will be used if the applicant has been self-employed for a full two years. The usable income for a loan is the bottom line on your federal tax return after all deductions. Depreciation and depletion will be added back to income.

[4] HUD definition of homeless

V. A current profit-and-loss statement will be required for review.

B. Other income considerations (4KVIII)

I. Only income received by the mortgagor(s) will be used for debt service and mortgage calculations to determine ability to pay.
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.
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. All other income used must be ongoing for the next three years.

5.15. Assets (4KIX)

The total of all assets that could be liquidated or sold, other than retirement savings accounts, which if projected would provide monthly income more than 80% AMI or would make the homebuyer eligible for conventional financing sufficient to buy a home.

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

A. The standard debt-to-income ratio is capped at 28/40.
B. PPHFH's maximum **"front-end ratio"** is 28%, meaning that the anticipated monthly housing costs of a PPHFH home (incl. principal, property taxes, hazard insurance, and HOA dues, if applicable) may not exceed 28% of the applicant(s)' gross monthly household income.
C. PPHFH's maximum **"back-end ratio"** is 40%, meaning that the anticipated monthly housing costs of a PPHFH home (incl. principal, property taxes, hazard insurance, and HOA dues, if applicable) plus all other debts for which the applicant(s)' have a monthly liability may not exceed 40% of the applicant(s)' gross monthly household income.

5.16.1. Debt Included In Debt-To-Income Ratios (4KXI)

A. For installment debt with more than ten months left to pay (including auto and personal loans) the actual monthly payment as documented by a monthly statement or from the credit report will be used in the DTI.
B. Minimum payments on all open credit card accounts with a balance owing.
C. Co-signed loans (unless 12 months of cancelled checks show payments being made by the other party).
D. Child support.
E. Alimony.
F. Child care expenses will be deducted from the applicant's total gross income prior to calculation of the DTI Ratio.
G. 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.
H. Deferred student loans will be included, using a monthly payment of 1 percent of the balance owed unless a monthly payment amount is indicated on the most recent statement or the credit report. If the student loans are in an income-based repayment plan, then use that monthly payment. Include student loan debts even if they are in deferment or forbearance. Student loans in deferment or forbearance will be calculated at 1% of the balanced owed. For **revolving accounts** (including credit cards and lines of credit)**,** the monthly obligation used in the DTI Calculator will be 3% of the outstanding balance.

5.17. Credit (4KXI)

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 24 months.
C. All collection accounts must be paid in full before closing.
D. All open judgments have to be satisfied before closing.
E. All open liens must be paid in full before closing.
F. Any applicant who has filed bankruptcy must have been charged off for no less than two years.
G. Repossessions must be at least three years old at time of closing.
H. The applicant must have no liens or judgments that cannot be cleared before closing.

5.18. Rental verification and monthly payment consistency

A. A full one year of rent, utilities and other credit obligation payments will be verified.
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 **(4KXII)**

A. 28 percent of gross income can go to housing (principle, interest, taxes, insurance) (maximum front-end ratio).
B. No more than 40 percent of an applicant's gross income can go to housing plus other debt (maximum back-end ratio) at closing.

6. Partnership

PPHFH will serve the household with the highest need for housing. PPHFH 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.
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, PPHFH 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 *200 sweat-equity hours* **(5B)** toward the completion of their home or the homes of others. These 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 will not be compensated should an applicant withdraw or be deselected. **(5C)**

6.4. Electronic communication (5D)

PPHFH 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

PPHFH 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, PPHFH will adhere to that standard.

B. Each homebuyer 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 PPHFH 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. Affordability

A fully amortized first mortgage loan will be granted to qualified applicants who meet the conditions in their partnership agreement.

A. All first mortgages will not exceed a 30-year term. **(6C)**
B. A determination of each applicant's affordability index will be completed to ensure that their DTI does not exceed 40 percent of gross income.
C. At closing, each applicant's mortgage payment (which includes principle, interest (if any), taxes and insurance) will not exceed 28 percent of their gross income. **(6B)**

7.3. Subsidy

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

A. The difference between the sales price and the first mortgage (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 deferred mortgages will be amortized. **(6E)** Early payment in full of the first mortgage will not satisfy the terms of the subordinate mortgage. **(6F)**

7.4. Shared appreciation strategy (8A)

PPHFH and the homebuyer will share in the appreciation experienced during ownership.

A. A shared appreciation agreement will be used in each sale.
B. This agreement will be in a separate recorded instrument.

7.5. First right to purchase

PPHFH retains the "first right to purchase" on all PPHFH property sold. **(6G)**

7.6. Closing costs

A. The closing costs associated with the sale to the homeowner are paid by PPHFH. The cost of the first year of homeowner's insurance and Home Owner's Association (HOA) reserves, if applicable, which are typically collected at closing, are the homeowner's responsibility. **(6H)**

8. Sale preparation (RESPA phase) and closing

PPHFH 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 later than two months from the expected closing date, **PPHFH** 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, **PPHFH** will: **(7B)**

  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, **PPHFH** 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 two weeks before closing.

D. Upon preparation of closing documents:

  I. Review disclosures for accuracy. Be mindful of tolerances.
  II. Review conveyance documents for accuracy.
  III. Provide closing documents 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 documents.

8.3. Sales contract

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

8.4. 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. **(7H)**

Appendix 1: Homeowner services team

A. Certain responsibilities of homeowner selection can be managed by the following roles or agencies:
   I. Homeowner selection committee
   II. Homeowner selection/support staff
   III. Finance committee member
   IV. Finance staff
   V. Third-party lender
   VI. 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 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).

C. 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

[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.

recordkeeping of applications for 25 months after the notice of action is taken. These are all legal requirements and **cannot be reduced**.

D. 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.

E. QLO compensation will be salaried or hourly wages. Compensation for QLO will under no circumstances be tied to the number or dollar amount of loan originated.

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 28 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 PPHFH homeownership program.
II. Requirements of applicants.
III. Expectations of both PPHFH and applicants.
IV. Timelines for the process.

RETURN TO SECTION 3. HOMEOWNER RECRUITMENT

Appendix 3: PPHFH 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, and 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, PPHFH 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. PPHFH 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.

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. **Background screening**

A sex offender registry finding or previous conviction may disqualify an applicant from homeownership with PPHFH. The results of a sex offender registry check and a criminal background check will be used to identify the two convictions listed below, and if either of these two convictions is revealed as stated below, the family's current application for a PPHFH home will be denied.

I. <u>Conviction of pedophilia by any adult who would reside in the PPFHF home.</u> "Willingness to Partner" is required for home ownership with PPHFH for Humanity. PPHFH believes that "Willingness to Partner" is indicated in part by displaying behavior that is to the good of one's community and neighborhood. We further believe that a past conviction of pedophilia indicates potential danger to the children in the neighborhood of a PPHFH home, and therefore indicates an absence of "Willingness to Partner." For this reason, if any of the adults who are listed as potential residents of the PPHFH home have been at any time convicted of pedophilia, the family's application will be denied.

II. <u>Conviction of drug sales in the state of Colorado within the 36 months prior to application date</u>. An applicant's "Ability to Pay" is required for home ownership with PPHFH for Humanity. PPHFH believes that a conviction of drug sales within the 36 months prior to the date of application indicates behavior that could in the future lead to the seizure of the applicant's property including the PPHFH home and therefore affects the family's "Ability to Pay." For this reason if any adult whose income is included in the application for the PPHFH home has been convicted of drug sales in the state of Colorado within the 36 months prior to the application date, the family's application will be denied.

In addition to the two convictions described above, PPHFH may take into consideration other information revealed on a sex offender registry check or a criminal background check in order to determine the family's Need for Housing, Ability to Pay, and Willingness to Partner. In determining eligibility, PPHFH, in its sole discretion, may consider several factors, including without limitation, one or more of the following:

I. nature of the convictions and whether children were involved;
II. time elapsed since the offense;
III. age of the applicant when the offense occurred;
IV. number of convictions;
V. any information produced by the person, or produced on the person's behalf demonstrating rehabilitation and good conduct;
VI. whether partnering with the applicant would pose a risk to the organization;
VII. the nature of the build, i.e., proximity of houses, mixed use communities, etc.; and/or
VIII. any other factor that PPHFH deems relevant to the decision.

D. **Sex offender checks:**

I. utilize National Sex Offender Public Website (http://www.nsopw.gov) as a resource and check all states in which the person has resided for the last ten (10) years
II. ensure that application materials state that the position or partner family relationship requires a sex offender registry check;
III. seek prior written approval;
IV. initiate sex offender registry checks prior to the selection of partner families, hire or promotion of an employee, and acceptance of a candidate for board or volunteer service;
V. review sex offender registry checks that reveal convictions and determine within a reasonable time whether such convictions disqualify individuals from positions and/or family partnerships.

E. **Criminal Background Checks**

I. check all states in which the person has resided for the last ten (10) years;
II. ensure that application materials state that the position or partner family relationship requires a criminal background check;
III. seek prior written approval in accordance with applicable laws;
IV. initiate criminal background checks using third party vendor prior to ensure that application materials state that the position or partner family relationship requires a criminal background check;
V. review criminal background checks that reveal convictions and determine within a reasonable time whether such convictions disqualify individuals from positions and/or family partnerships.

F. **ECOA File retention/Application**

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.

All physical PPHFH applications, and mortgage files containing sensitive information will be stored in locked filing cabinets in a secure location. Only specific employees who use the files, such as the Director of Homeowner Services, the Executive Director, the Director of Finance and other authorized staff, will have access to these files.

All electronic PPHFH applications, and mortgage files containing sensitive information will be stored on PPHFH's password-protected and secure server.

Denied and incomplete applications for PPHFH's affordable homeownership will be retained for a period of 36 months.

Active mortgage files held by PPHFH will be retained for the entire life of the loan. Inactive/closed mortgage files that have been sold by PPHFH, transferred, paid-in-full through scheduled payments or sale, foreclosed, satisfied with a Deed in Lieu of Foreclosure or written off will be retained for a period of seven (7) years.

G. **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 <u>and</u> provide a reasonable period for the applicant to furnish the missing information.

I. Upon receiving any piece of application information, PPHFH will send a letter to all applicant(s) within 30 calendar days notifying the applicant(s) of receipt of the application and indicating that the current status of the application is either:

   I. under review and in-progress;
   II. incomplete and requiring additional information from the applicants;
   III. denied due to ineligibility (see 4.2.v. below); or approved.

II. Applications will be processed by Director of Homeowner Services or other designated PPHFH staff. Processing an application entails:

   I. Checking for all required documentation and forms;
   II. Requesting credit history;
   III. Completing DTI Calculator.

III. If a processed application reveals that an applicant clearly does not meet one of the three basic eligibility criteria, the Director of Homeowner Services will send a letter of denial to the applicant(s) within 30 days of the receipt of the application. If the denial is based on information revealed on a credit report, the denial letter will include the appropriate language and credit bureau contact information as required by the Fair Credit Reporting Act.

IV. Homeowner Services staff will interview all eligibility applicants prior to meeting with the Family Selection Committee to discuss the three basic eligibility criteria, the PPHFH process, requirements and answer questions the applicants may have about the program.

V. If a processed application appears to meet the three basic eligibility criteria, or if the Director of Homeowner Services is unsure about the eligibility of the applicant(s), the application will be reviewed by the Committee at the next scheduled meeting.

H. **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.

I. **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.

J. **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 have a bearing on

[7] See the **HFHI Legal Advisory: Residency of Applicants — Local**.

[8] Consult the **Immigration Status of Applicants Memo**.

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.

K. **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. Income limits

PPHFH homeownership program is to serve those who may not obtain adequate housing through conventional lending but can pay a PPHFH mortgage. Therefore, PPHFH has set income parameters that limit the total household income to be eligible for a PPHFH home.
To become a PPHFH homebuyer, a household must have a total income of 80 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.

II. 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).

III. 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.

IV. Approved applicants must be willing to fulfill all the partnership requirements for PPHFH 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 PPHFH homeownership are not required to perform sweat equity during the application process. Sweat equity may only be performed after the applicant has been approved and signed a partnership agreement. 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.

V. 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.

VI. 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.

VII. 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 PPHFH 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.

VIII. 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.

IX. 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.

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

XI. 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 PPHFH 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 $2,500 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.

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

L. **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. PPHFH 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.

I. Eligibility for homeownership is based in part on the applicant(s)' ability to meet income guidelines which are relative to household size.

II. Household size is defined by the number of individuals who are expected to reside permanently in the PPHFH home.

III. PPHFH selects families for homes based on current need, meaning that household size may not include projections of future household size, with the exception that household members who are pregnant at the time of application may be counted as two household members.

IV. Each adult member of the household must be listed as an **applicant** unless:
  I. the individual can be claimed as a dependent of another applicant;
  II. the applicant(s) can provide reasonable evidence that the individual is expected to be a permanent member of the household but will not be financially responsible for the mortgage; or
  III. there are other special circumstances that allow for adult household members to not be listed as applicants, as approved by the Committee.

V. For individuals who are not applicants to be counted as **members of the household**, they must be:
  I. minor dependents (including expected pregnancies) who reside with the applicant(s) at least 50% percent of the year;
  II. other adult members of the household who can provide reasonable evidence that they will be permanent members of the household.

M. **Custody of Dependents**

I. To include dependents as members of the household, applicants must be able to demonstrate at least 50% custody for each dependent.
II. Supporting Documentation may include: Birth certificates, court-ordered custody agreements.

N. **Marital Status**

If any potential applicant is separated or in the process of a divorce and the applicant's legal spouse is not a permanent member of the household, the divorce must be finalized prior to the date of the application, or the applicant must have legal proof that the spouse has no right to the applicant's property. Supporting Documentation may include: divorce decree, court order.

O. **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).

P. **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.

Q. **Review by Family Selection Committee**

I. The Committee will meet monthly while the application process is open and there are applications to review. The Director of Homeowner Services will bring processed application packets for applicants who may be qualified for homeownership to the monthly meeting for review.
II. Among the current application pool, the Committee will determine those who meet the three basic eligibility criteria and make arrangements for a visit to the applicants' homes.
III. Those who are deemed ineligible by the Committee will be sent the appropriate denial letter by the Director of Homeowner Services.

R. **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.

Members from the Committee (a team of two committee members in most cases) will visit the home of qualified applicants to assess the current housing situation. Committee members will complete and submit the Housing Needs Assessment form to the Director of Homeowner Services.

Home visitors should:

I. 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).
II. Assess the applicant's willingness to move to current or future PPHFH house construction locations.

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

I. Explain and review PPHFH ministry and the basic requirements for obtaining a home if the applicant is selected.
II. Answer general questions from the applicant about the PPHFH homeowner selection process.
III. 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:

I. 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.
II. Visitors must avoid asking questions that could be considered a violation of the Affiliate Covenant or fair lending laws.
III. 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.
IV. 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.)

S. **Review and Discussion by Committee**

I. Following applicant home visits, the Committee will once again convene to review and discuss the home visit, and determine if the applicant(s) do in fact meet the PPHFH eligibility criteria.

II. If the Committee deems that applicant(s) meet all of the eligibility criteria, the application will be recommended to the Board for approval.
III. If there are more qualified applicants than slots available, the applicants will be prioritized based on 1) need for housing; 2) ability to pay; and 3) willingness to partner. If all is equal the **date** that the application and **all** required documentation submitted will be the deciding factor as to who is recommended to the Board for approval.
IV. If application meets all of the requirements but no slot/home of the appropriate size is currently available (or likely to be available within the next 6 months), the Director of Homeowner Services will send a denial letter, with an explanation of the situation and encouragement to re-apply the next time that the application process is open.

T. **Review by Board**

I. At their scheduled monthly meeting, the Board will review any applications recommended for approval by the Committee.
II. The Director of Homeowner Services will prepare a summary of the applicant(s) household, redacting any personal identifying information about the applicant(s).
III. The Board will have the opportunity to discuss the application and ask questions of the Director of Homeowner Services.
IV. The Board must approve a motion in order to accept applicant(s) into the homeownership program.

U. **Approval and Notification**

I. Following approval by the Board, the Director of Homeowner Services will notify the applicant(s) in writing of the decision. The applicant(s) must acknowledge and accept the offer to participate in PPHFH's affordable homeownership program by signing the notification of acceptance letter and the Partnership Agreement within 30 days of the date of the notification letter.
II. If the applicant(s) decide to decline the offer to participate in PPHFH**'s** affordable homeownership, they are not restricted from applying again in the future.
III. Once a PPHFH Family Applicant has been accepted into the PPHFH affordable homeownership program, they have the right to decline/refuse a location four (4) times in a row. If an applicant chooses to decline/refuse a location for the fourth (4) time in a row, they will not be able to apply for another PPHFH for Humanity house, until 2 years from the date of their decline/refusal.

RETURN TO SECTION 5. APPLICATION EVALUATION

Appendix 5: Partnership

A. After being selected, a household may be deselected as a Partner Family only in the following circumstances:

I. A negative change in economic circumstances can set the Partner Family up for failure by placing them in a home they may not be able to afford. It is important to note, that the Affiliate will work with the Partner Family and deselection will be the last resort. For example, if a Partner Family has a significant decrease in income due to a loss of employment, the Affiliate will make every effort to give the household 90 days to find comparable employment to reestablish income.
II. An approved applicant who improves their financial status above the Affiliate's AMI standards cannot be deselected. Affiliates must re-evaluate the applicant's ability to repay and ensure that the house is financed accordingly as per the DTI ratio of 28/40. This could mean that the applicant does not receive any subsidies in the house price, or gets a shorter loan term.
III. Only households deselected for negative change in the ability to pay will be permitted to re-apply. If the household is deselected for "Demonstrated fraud on the application" and/or "Failure to complete requirements set forth in the Partnership Agreement", they will not be permitted to re-apply.
IV. If the individual/household is permitted to re-apply and were re-selected, the Family Selection and Services Committee, with board approval, may provide credit to the applicant(s) for a portion of the hours earned within the last 24 months.
V. No preferential treatment will be given to a deselected applicant if they choose to apply a second time.
VI. Partnering Family will be asked to attend a corrective meeting with the Director of Homeowner Services and the Executive Director. Failure to correct the issues addressed in this meeting may result in deselection from the Pikes Peak PPHFH for Humanity Affordable Homeownership Program. Deselection shall be at the sole discretion of PPHFH and if de-selection occurs it shall be without recourse at law or in equity. The Director of Homeowner Services will present to the Board the circumstances for the de-selection…….They will vote on the deselection of the household, who will then be notified in writing that they are no longer eligible to receive a home but may be able to reapply in the future if circumstances change.

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 150 construction site hours.

I. Sweat Equity is a requirement for the future homeowner, and Pikes Peak PPHFH for Humanity (PPHFH) draws no exceptions on this requirement. PPHFH requires that each individual applicant complete 200 hours of sweat equity. At least 150 of the 200 sweat equity hours be completed on the construction site for each individual applicant. PPHFH may make accommodations, on a case by case basis, for future homeowners who are unable to perform construction work due to a disability or other special circumstance. In lieu of construction work, future homeowners who are granted an accommodation may do clean-up work, work with committees, administration, and at the ReStore. As a last resort, there are also alternative hours that may be performed with other community agencies. However, alternative hours must have the approval of the Family Selection Committee.
II. Each Future Homeowner must complete at least 25 hours of Sweat Equity before a Ground Blessing can be scheduled or color selections can be made.
III. In a two adult household, each spouse must complete at minimum of 200 hours each. If a third adult is listed as a co-applicant, he or she must complete at minimum of 200 sweat equity hours.
IV. The time included in sweat equity for the future homeowner includes all PPHFH meetings, events Financial Counseling/Coaching and construction.
V. Sweat equity must be completed in a manner that displays a healthy, cooperative partnership including:
VI. Cooperatively working with volunteers, PPHFH staff, and other homeowners.
VII. Obtaining the signature from a PPHFH staff member for all hours of sweat equity that are completed.

VIII. Demonstrating a willingness to complete the tasks at the job site, including working on own home and working on other PPHFH partner homes. Future homeowners will never be asked to do anything outside their abilities.
IX. Arriving on time and leaving only after cleaning-up for each shift, unless an agreement has been made with the construction supervisor and Director of Homeowner Services.
X. Keeping up with required minimum monthly hours as specified in the Sweat Equity Addendum. And notifying the Director of Homeowner Services if unable to complete scheduled sweat equity hours due to illness or other unavoidable circumstances.

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. Obtaining an e-sign release is federal law.

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 PPHFH 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 PPHFH used to set the sales price should not be made available to the buyer unless it was also used in the lending decision.
III. Sales price is equal to current market value as determined by a real estate appraisal (FMV). An appraisal shall be obtained for every home.

The first mortgage will be equal to the lesser of:

IV. Maximum affordable amount for family based on 28% of their income at the time of closing. This amount includes principal, escrow for property taxes, insurance, and HOA dues if applicable.
V. The first mortgage term shall be 30 years unless Buyers income level allows for shorter mortgage term.
VI. Grants will NOT reduce the amount of either the first or second mortgages, unless specifically required by the Grantor, OR if the terms of the grant require repayment from the homeowner.
VII. FHLB grants will not reduce the amount of the first mortgage UNLESS there is no second mortgage.
VIII. If the Grantor does require a reduction in the overall mortgage amount, the 2nd will be reduced and if it is insufficient the 1st will be reduced in the amount of the insufficiency, unless the Grantor requires otherwise.
IX. The amount of the forgivable second mortgage shall be determined by subtracting the amount of the first mortgage and any required Grantor restrictions from the appraised value (FMV).
X. The second mortgage shall be forgiven in full at the end of the 30-year term, or equal to the term of the first mortgage if shorter than 30 years, provided all payments on the first have been made and it has been satisfied. If all payments have not been made, forgiveness shall be delayed until the first has been satisfied.

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.). **PPHFH's DTI is 28/40**. 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. PPHFH 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. **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.

H. It is recommended that affiliates share 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.

B. Final RESPA loan application: Upon completion of all program requirements (sweat equity, homeownership classes, etc) and upon completion of construction on a partner family's home, PPHFH will obtain a real estate appraisal in order to establish a sales price of the home. At this time, PPHFH will re-certify that a partner family continues to meet all eligibility requirements, as detailed in this policy. This will be done be collecting updated income and credit information for the applicants. PPHFH will then calculate the sales price and loan amounts in accordance with the PPHFH House Pricing Policy. Establishing the sales price and loan amounts, in addition to the personal and income information previously collected, will constitute a completed loan application as defined by RESPA and trigger PPHFH to issue all required disclosures according to the timeline specified by RESPA.

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 toolkit
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 PPHFH is the lien holder, you must ensure that applicable disclosures are provided in a timely manner.

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

D. 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.

E. Federal law prohibits "steering," which is when a seller directs a buyer to a particular lender. PPHFH 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.

F. Under federal law, a buyer has the right to receive a copy of the appraisal used in the loan decision. When PPHFH 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 PPHFH used to set the sales price should not be made available to the buyer unless it was also used in the lending decision.

G. PPHFH 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.

H. Disclosures required to be provided at closing:

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

TRID
CD
Initial Escrow Statement

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

Appendix 8: Right of Repurchase and Shared Appreciation Policy

A. The purpose of this policy is to define the terms and conditions that are required for Pikes Peak Habitat for Humanity (PPHFH) mortgages, home buybacks, and appreciation sharing. This policy is also intended to ensure that our current mortgage procedures are in compliance with Habitat for Humanity International's U.S. Affiliated Organization Policy Handbook.

B. General Principles

I. PPHFH's primary mission is to provide decent, affordable homes for qualified home buyers. We believe these homes empower families with access to credit, ongoing financial stability through affordable monthly payments and long term financial opportunity.
II. Habitat believes we have a duty to be good stewards of the resources that have been donated to build Habitat homes. This duty includes establishing provisions to allow the investment made in Habitat homes to potentially be "recycled" for another family if the original homeowner decides to sell.
III. Habitat is committed to increasing the stock of affordable housing, which means ensuring long term affordability of the property.

C. Mortgages

I. The term of PPHFH mortgages will not exceed 30 years.
II. It is the intent of PPHFH to recover the selling price of homes as quickly as possible, while utilizing the 'Affordability Formula' below. Monthly principal payments for the 1st mortgage should be set at the maximum allowable amount, as follows:

28% of Gross Monthly Income
Minus
Monthly taxes and insurance
Minus
Mandatory Assessments (HOA, etc.)
Equals
Monthly Principal

PPHFH will consider other special assessments for inclusion in the affordability formula on a case by case basis.

III. Historically, PPHFH has had little turnover of properties, either through foreclosure or from the sale of Habitat homes on the open housing market. We recognize that our current program and restrictions by themselves result in a substantial level of long term affordability.
IV. PPHFH will continue to accept government grants that put resale and recapture provisions on the Habitat homes. PPHFH works in many jurisdictions around the area, and restrictions vary. Generally, recapture and 80% AMI resale provisions do not affect Habitat homeowners or this policy in substantive ways.
V. However, 60% AMI resale restrictions impose some limitations. The 60% AMI resale restrictions are imposed over a set period of time (usually 20 years) and may make it difficult for the family to sell the home. This is especially true in the first 10 years of the mortgage. In some cases, PPHFH may need to consider buying these homes, recycling the homes for other Habitat families.
VI. Homeowners are required to use their Habitat home as their principal residence until all Habitat mortgages have a zero balance. Mortgage documents shall include as an event of default use of the house as anything other than a principal residence.

VII. Upon completion of work and before sale, PPHFH will have a licensed appraiser perform an appraisal of the completed home to determine the real estate fair market value. The fair market value will be the sales price of the property. In some cases, government funding may reduce the sales price below the fair market value.

VIII. When the sales price exceeds the 1st mortgage, a 2nd mortgage will be recorded against the house for the difference up to the sales price minus any borrower financed closing costs. PPHFH will be the holder of the 2nd mortgage. The term of 2nd mortgage will be the same as the 1st mortgage. The 2nd mortgage will be forgiven in full at the end of the 1st mortgage term, provided the Borrower is in good standing on the 1st mortgage. In the event that the 1st mortgage term is extended beyond the maturity date of the 2nd mortgage, then the 2nd mortgage maturity date will also be modified to match the modified maturity date of the 1st mortgage.

IX. All payments of mortgage, taxes, insurance, HOA dues, and PPHFH fees must be fully current to receive any forgiveness of the 2nd mortgage.

D. Resale of Habitat Homes and Related Mortgage Restrictions

I. Repurchase of homes by PPHFH and provisions for appreciation sharing do not pertain to home foreclosures or other default provisions allowed in our mortgage documents, in HOA policies, or within this policy.

II. PPHFH and Borrower will sign a Right of Repurchase and Shared Appreciation Agreement when conveying title to the property to the Borrower, giving PPHFH the option to repurchase the home in the event the owner decides to sell. The right of repurchase will run for the term of the loan as outlined in the promissory note. PPHFH will have the option to repurchase homes under this provision, but under no circumstances will PPHFH be required to repurchase homes.

III. Fair Market Value. PPHFH believes that the most equitable way to determine the value of a home in all transactions is the fair market value as assessed by the greater of the sales price or by a licensed residential real estate appraiser (subject to market conditions and board review). If PPHFH choses to exercise its option to repurchase, the fair market value will be the purchase price of the property.

IV. Purchase Price. If PPHFH chooses to exercise its Repurchase Right, the amount PPHFH shall pay to Owner at Closing shall be determined as follows:

(a). If the Repurchase Right is exercised during years zero (0) through five (5) after the date of Agreement, PPHFH shall pay Owner an amount equal to Zero and no/100 Dollars ($0.00).

(b). If the Repurchase Right is exercised during years six (6) through fifteen (15) after the date of Agreement, PPHFH shall pay Owner an amount equal to fifty percent (50%) of the Repurchase Equity Value (as defined below);

(c). If the Repurchase Right is exercised during years sixteen (16) through the term of the First Mortgage after the date of this Agreement, PPHFH shall pay Owner an amount equal to one hundred percent (100%) of the Repurchase Equity Value.

"***Repurchase Equity Value***" shall mean an amount, as reasonably determined by PPHFH, equal to fair market value of the Property as of the date of exercise of the Repurchase Right, <u>less</u> the outstanding principal amount of all liens and encumbrances on the Property (including the First Mortgage, the Deferred Mortgage and the Forgivable Mortgage), <u>less</u> the value of any significant capital improvements made to the Property by the Owner (as reasonably determined by PPHFH, and excluding items relating to normal property upkeep and maintenance), <u>less</u> all closing costs and expenses associated with closing the repurchase by PPHFH.

Example Allocation of Repurchase Equity Value

Fair market value = (greater of the Sales Price or Appraisal)	$150,000
↓	↓

Minus Principal Balance of all liens	$125,000
↓	↓
Minus Homeowner Capital Improvements	$5,000
↓	↓
Minus All Closing Costs & Expenses	$1,000
↓	↓
Equals = Equity Value	**$19,000**
↓	↓
Years 0 through 5 of Home Ownership → 0% of Equity	$0
Years 6 through 15 of Home Ownership → 50% of Equity	$9,500*
Years 16 through 30 of Home Ownership →100% of Equity	$19,000
Repurchase Equity Value to Owner (assume selling in year 12)*	$19,000 - $9,500 = **$9,500**

If PPHFH chooses not to exercise its Repurchase Right and Owner conveys the Property to third party by any means (including, but not limited to, any sale, foreclosure, or other transfer of title), the parties shall share any Appreciation Value (as defined below) of the Property. Owner shall pay to PPHFH its portion of the Appreciation Value as follows:

(a). If the sale of the Property occurs during years zero (0) through five (5) after the date of Agreement, PPHFH shall receive one hundred percent (100%) of the Appreciation Value.

(b). If the sale of the Property occurs during years six (6) through fifteen (15) after the date of Agreement, PPHFH shall receive fifty percent (50%) of the Appreciation Value, and Owner shall retain the remaining fifty percent (50%) of the Appreciation Value.

(c). If the sale of the Property occurs during years sixteen (16) through the term of the First Mortgage after the date of this Agreement, Owner shall retain one hundred percent (100%) of the Appreciation Value.

"***Appreciation Value***" shall mean an amount, as reasonably determined by PPHFH, equal to the fair market value of the Property as of the date of sale of the Property, less the fair market value of the Property at the time of sale of the Property by PPHFH to Owner, less the value of any significant capital improvements (as reasonably determined by PPHFH) made to the Property by the Owner (excluding items relating to normal property upkeep and maintenance).

Example Allocation of Appreciation Value

Current Fair Market Value (greater of Sales Price or Appraisal)	$150,000
↓	↓
Minus Original Appraisal	$135,000
↓	↓
Minus Homeowner Capital Improvements	$5,000
↓	↓
Equals = Appreciation Distribution	**$10,000**
↓	↓
Homeowner to receive:	
Years 0 through 5 of Home Ownership → 0% of Appreciation	$0
Years 6 through 15 of Home Ownership → 50% of Appreciation	$5,000*
Years 16 through 30 of Home Ownership →100% of Appreciation	$10,000

Shared Appreciation to Owner (assume selling in year 12)*	$10,000 - $5,000 = **$5,000**
Shared Appreciation to PPHFH	**$5,000**

E. At the time of sale of a Habitat home back to PPHFH, and as determined by a PPHFH appointed licensed appraiser or third party house inspector, property damage beyond normal wear and tear will be deducted from the Borrower's AD percentage and retained by PPHFH.

F. The Shared Appreciation provision will only be triggered if the homeowner sells the property within 30 years of the initial sale date.