



HCD SINGLE FAMILY ACQUISITION AND REHABILITATION FIRST INITIATIVE

HARRIS COUNTY HOUSING & COMMUNITY DEVELOPMENT

HARRIS COUNTY, TX 1111 FANNIN STREET 9TH FLOOR, HOUSTON, TX
77002

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HCD Single Family ACQUISITION AND REHABILITATION FIRST INITIATIVE

Harris County, Texas

1. Introduction

The HCD SF Acquisition and Rehabilitation First Initiative (HCSFARFI) will be administered by Harris County Housing & Community Development (HCD). This program will provide the community with additional affordable single-family homes through the acquisition, rehabilitation, and grant assistance to purchase homes for eligible buyers.

As a part of its mission, the Harris County Community Services Department (HCD) is charged with the creation and preservation of affordable housing and a suitable living environment for the low-income individuals of Harris County. HCD carries out its mission in part through the operation of the HCD SF Acquisition and Rehabilitation First Initiative (HCSFARFI). The goal of the Program is to increase the number of affordable housing options in Harris County. When projects are rehabilitated, the property shall comply with Harris County's Minimum Property Standards (MPS).

HCD will locate homes in Harris County that may be eligible for acquisition and rehabilitation services. A housing inspector or designee will inspect the home to determine the estimated cost of improvements required to meet the minimum property standards as adopted by HCD HCSFARFI. Once the acquired homes have been rehabilitated, applicants may be eligible for assistance in purchasing homes acquired under this Program. Assistance will be provided in the form of a deferred forgivable loan, secured by a second lien deed of trust with a minimum of a ten (10) year affordability period but no more than ten (10) years. HCD is required to conduct an environmental review. An Environmental Review must be performed by HCHCD prior to acquisition.

2. Definitions

Acquisition – The utilization of CDBG funds to acquire real property. Acquisition only is typically not considered a complete activity in the Program and must be combined with another eligible activity to fully meet the National Objective. The purchase price must be consistent with applicable uniform cost principles (appraisal).

Builder/Contractor – (Used interchangeably) A person who contracts to construct or repair houses or buildings and/or supervises building operations.

Builder Assignments – A qualified pool of builders developed by subrecipients. They must also meet state and federal procurement requirements and possess controls that will ensure quality construction based on the Minimum Property Standards (MPS).

Closing Agent/Title Company – Procured vendor that will assist HCD in purchasing and selling properties, assisted through HCD programs.

Environmental Review – All qualified projects must undergo an environmental review process. This process ensures that the activities comply with the National Environmental Policy Act (NEPA) and other applicable state and federal laws.

Family – A household composed of two or more related persons. The term family also includes one or more eligible persons living with another person or persons who are determined to be important to their care or well-being and the surviving member or members of any family described in this definition who were living in a unit assisted under the Housing Opportunities for Persons With AIDS (HOPWA) Program at the time of his or her death.

Federal Register (FR) – A daily publication of the US federal government that issues proposed and final administrative regulations of federal agencies.

Floodplain – FEMA designates floodplains as geographic zones subject to varying levels of flood risk. Each zone reflects the severity or type of potential flooding in the area.

- “100-year floodplain” — the geographical area defined by FEMA as having a one percent chance of being inundated by a flooding event in any given year.
- “500-year floodplain” — the geographical area defined by FEMA as having a 0.2 percent chance of being inundated by a flooding event in any given year.

Household – A household is defined as all persons occupying the same housing unit, regardless of their relationship to each other. The occupants could consist of a single family, two or more families living together, or any other group of related or unrelated people who share living arrangements. For housing activities, the test of meeting the LMI National Objective is based on the LMI of the household.

Low to Moderate Housing (LMH) National Objective – Any activity that involves the acquisition or rehabilitation of property to provide housing or improve permanent residential structures will, upon completion, benefit and must be occupied by low- and moderate-income households (42 U.S.C. 5305(c)(3)). Income eligibility will be determined using Area Median Income (AMI), adjusted for family size. The most current income limits, published annually by HUD, shall be used by the subrecipient or the state to verify the income eligibility of each household applying for assistance at the time assistance is provided.

Low- to Moderate-Income (LMI) National Objective – Activities which benefit persons of income that do not exceed 80 percent of the area median income:

- Very low: Household's annual income is up to 30 percent of the area median family income, as determined by HUD, adjusted for family size;
- Low: Household's annual income is between 31 percent and 50 percent of the area median family income, as determined by HUD, adjusted for family size; and
- Moderate: Household's annual income is between 51 percent and 80 percent of the area median family income, as determined by HUD, adjusted for family size.

- Upper: The Household's annual income is between 81 percent and 120 percent of the area median family income, as determined by HUD, adjusted for family size.

Minimum Property Standards – The Minimum Property Standards (MPS) establish certain minimum standards for buildings constructed under HUD housing programs. These include new single-family homes, multi-family housing, and health care type facilities as outlined in HUD's 2023 Edition Handbook (4910.1).

Program Design – The selection and development of programs and activities based on a needs assessment. The Program Design must include the type of housing activities that will be offered by the subrecipient or the state, how the program will be marketed, how Fair Housing Objectives will be achieved, and how funding will be prioritized as determined through a needs assessment.

Program Income – Net income derived from the sale of program assets that exceeds \$35,000 in the aggregate, in a single fiscal year, received by the subrecipient and directly generated from the use of housing CDBG funds.

Rehabilitation – Repair or restoration of housing units to applicable construction codes and standards.

Single Family Home – A single-unit family residence, detached or attached to other housing structures.

Subrecipient – Cities, counties, Indian tribes, local governmental agencies (including COGs), private nonprofits (including faith-based organizations), or a for-profit entity authorized under 24 CFR 570.201(o). The definition of subrecipient does not include procured vendors, private grant administrators, or contractors providing supplies, equipment, construction, or services, and may be further restricted by Program rules or other guidance, including applications. See vendor definition for further clarification.

Subrogation Agreement – An agreement executed by the beneficiary agreeing to repay any duplicative assistance if the beneficiary later receives other disaster assistance for the same purpose as disaster recovery funds already received.

Forgivable Promissory Note – Is an agreement between the assisted beneficiary and Harris County that requires applicants to comply with several terms during a set affordability period. At the end of the affordability period, the terms are forgiven after they are met by the homeowner.

3. Purpose & Program Scope

The primary focus of this Program is to increase the number of affordable housing options in Harris County, or indirectly impacted due to the resulting housing shortage. Consideration will be given to affirmatively further fair housing, as called for within the Fair Housing Act.

The Program shall provide decent, safe, and sanitary housing within Harris County through the acquisition and rehabilitation of homes and provide financial/grant assistance to eligible households for home ownership opportunities. While the program aims to acquire homes that can be rehabilitated, HCD may acquire homes to be reconstructed in special circumstances.

Program Priorities

There may be multiple rounds for the HCSFARFI, depending on the availability of funds. Applications will be awarded funding based on priorities established by HCD until all funds are exhausted.

Recipient Priorities

Applicants who meet the following priority designation(s) will receive priority for application funding.

1. Low & Moderate Income (LMI)

1.1.1.1. Low & Moderate Income

Homeowners who are of low and moderate income are defined as a household (based on household size) earning 120% or less of the area median income for Harris County as established by HUD.

Program Income

HCSFARFI anticipates program income. HCD will disburse and use program income before requesting additional cash withdrawals from the U.S. Treasury. **Any entity awarded HCSFARFI funds by HCHCD is required to immediately remit any and all program income from HCSFARFI-assisted activities directly to HCHCD.**

Determining/Documenting National Objective Compliance

HCHCD will use the “Part 5 income definition” found at 24 CFR 5.609, and it must be used consistently throughout the program.

The following source documents: copies of pay stubs, tax returns, and bank statements, are required to verify homebuyer eligibility. At a minimum, the HUD Technical Guide requirements for determining income eligibility must be met. The HUD Technical Guide for Determining Income may be found at the following link:

<http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/index.cfm>

4. Identify Properties

Property Search

HCD will search for properties to be acquired through the HCSFARFI by price, location, and environmental review. HCD will run a comparable report on potential properties, review crime rates, demographics of the surrounding area, school district, and flood zone information to help determine an estimated market price of the home(s). HCD will utilize multiple listing services,

communicate with banks about their Real Estate Owned properties, review HUD and Fannie Mae lists, foreclosed homes, homes for sale by owners, and other means. All information gathered will be utilized to determine if the home is economically feasible to be purchased, rehabbed, and sold through the HCSFARFI.

Ownership

Eligible Ownership

Ownership and resale/transferable title shall be evidenced and confirmed by review of a Title Status Report from the County Attorney's Office.

Location

The property must be located within Harris County, Texas, and not within the city limits of Houston. The property cannot be located within the city limits of Houston or outside the 100-year floodplain.

Preliminary Inspections

HCD will perform an initial site inspection and estimate the market value, rehabilitation costs. HCD will also estimate carrying costs, including make-ready service, pest control, lawn care, and insurance, and review information for potential acquisition, rehab, and resale.

5. Acquisition

Acquisition of Home

Subject to passing a preliminary inspection (4.3), HCD will prepare backup documentation that includes site visit photos, site visit memorandum, and property tax records for acquisition. After documentation is prepared and reviewed by HCD staff, the earnest money contract is to be signed by the HCD Executive Director. HCD will then prepare the earnest money contract and request earnest money from the finance department, which will prepare the check to the title company of the home to be acquired.

Inspection and Survey

TREC Inspection and Environmental Assessment

HCD will request a TREC inspection as part of the acquisition process for the home and will request inspection. HCD will utilize a procured vendor to complete the TREC inspection and Wood-Destroying Insect (WDI) report. Environmental assessment may be completed in-house. HCD will also request a survey of the property to be acquired. If the TREC inspection reveals extensive repairs, HCD may withdraw from the acquisition if it is not feasible to rehab and sell.

Appraisal

HCD will request that an appraisal be completed by the Harris County Real Property District Manager or a procured vendor. The appraisal will be reviewed and compared to the contract purchase price against the appraised value prior to HCD acquiring the home.

Acquisition Due Diligence and Preparing for Closing

HCD will deliver the executed earnest money contract and check to the title company to initiate a title search and obtain a title commitment and preliminary Closing Disclosure or HUD-1. HCD will send the title commitment and "Schedule C" to the county attorney for review. Closing

Disclosure/ HUD-1 will be reviewed, and a Request for Payment packet will go to Finance for review and be sent to the county auditor to bring to the Commissioners Court. Once approved by the Commissioners Court, Finance will create a check and hold the check in a secure location at the HCD office, and on the settlement date, the check will be picked up and delivered to the title company. Additional due diligence activities will include requesting for TREC inspection, environmental assessment, and Appraisal. Within 3-5 days from the date of settlement, HCD will request the Consumer Disclosure/HUD-1 from the title company, and if approved, the title company will be informed to process the closing.

Closing

Once approved, hard copies of already signed documents from the seller will be provided to HCD. HCD will review all closing documents and, if approved, will provide the documents to the HCD Executive Director for signature. Title Company will notify the Harris County Appraisal District that the county has acquired the property and is tax-exempt. HCD will pick up the check from finance and deliver it to the title company, which will close and send all required documentation to the county after closing. HCD will then put all utilities in the county's name and purchase flood and hazard insurance with windstorm coverage (a separate windstorm coverage must be purchased if the hazard insurance excludes any windstorm coverage) for the property, as well as set up lawn service through the procured vendor. HCD will visit the property periodically during the rehabilitation and selling process.

6. Rehabilitation Activities

Eligible Activities

In general, eligible repair activities consist of the removal of deficiencies or health and safety hazards, improving energy efficiency, enhancing accessibility, remediating lead-based paint, and extending the useful life of the property to create and maintain resiliency. All improvements must be made to the property and permanent in nature. Examples of eligible items may include, but are not limited to, foundation repair, electrical rewiring or repair, plumbing repair, roof replacement or repair, heating and cooling system installation or repair, window and door replacement, repair of structurally significant damaged wood, and floor coverings where they pose a hazard.

Ineligible Activities

HCD will not rehab/reconstruct or newly construct any Manufactured Housing Units (MHU) through this program; as such, MHUs are not eligible for the HCSFARFI.

1.1.0. Homeowner Association

All rehabilitated or reconstructed homes must also adhere to the requirements of any applicable Homeowner Association (HOA) Covenants, Conditions & Restrictions when feasible.

6.2 Visitability Checklist

Dwelling is equipped for internet services, which includes wiring, broadband infrastructure, and utility/off-site connections from the property line to the adjacent street.

To address these disparities and aim for universal broadband access by 2025. Harris County has implemented several initiatives. All new affordable housing projects now include broadband infrastructure, benefiting 110 low-income renters. The county also launched "Operation Connectivity" using CARES Act funding to support remote learning for low-income students,

prioritizing areas with over 15% of households lacking internet. This overlaps with LMI areas such as Aldine ISD. Additionally, Harris County participates in “Project 10 Million” to increase broadband access statewide, connecting an estimated 85,000 individuals by spring 2021. Building Contractor, Procurement, & Selection Process. Before any Contractor is awarded a contract for rehabilitation work under the HCSFARFI, they must submit proposals to HCD under an informal or formal procurement process.

Contractors must meet the minimum requirements described below to be eligible to participate in the construction work financed under this program, Procurement Process

HCD may opt to procure contractors for the rehabilitation services under a Request for Proposals and Invitation to Bid process, which ensures that both qualifications and pricing are considered before the County enters into any agreements. HCD will follow all applicable federal (2 CFR 200.318–200.326) and local procurement requirements.

Contractor Eligibility Criteria

To be eligible for the HCSFARFI, the contractor must:

1. Not be debarred, suspended, or ineligible according to HUD's "Consolidated List of Debarred, Suspended, and Ineligible Contractors"
2. Not be debarred by the state of Texas or the U.S. General Services Administration's "Consolidated List of Debarred, Suspended, and Ineligible Contractors"
3. Secure and maintain the following insurance, at a minimum:
 - a. Workers' Compensation:
 - i. Statutory, and Bodily Injury by Accident: \$100,000 each for employee.
 - Bodily Injury by Disease: \$500,000 of policy limit \$100,000 for each employee.
 - b. Commercial General Liability:
 - i. In the amount of \$300,000 each occurrence, Limit Bodily Injury and Property Damage combined
 - ii. \$300,000 Products Completed Operations Aggregate Limit \$500,000 Per Job Aggregate \$300,000 Personal and Advertising Injury Limit.
 - c. Automobile Liability Coverage
 - i. \$300,000 Combined Liability Limits. Bodily Injury and Property Damage Combined.
4. Include Harris County as a named insured on all policies of insurance, and such policy shall provide that HCD be notified regarding renewal or cancellation.
5. Are registered to do business with the Texas Secretary of State;
6. Possess a Texas Sales & Use Tax permit from the Texas State Comptroller;
7. Participate in the Contractor's Orientation Seminar, outlining the procedures and guidelines that a Contractor must follow when participating in the HCSFARFI.
8. Maintain the necessary licenses and certifications for their trade.
9. Have both the financial capability and the staff to provide the services outlined in the contracts to which they are a party.
10. Be current on all Harris County property tax payments for property owned personally or through a corporation, partnership, or joint venture; and
11. Agree to participate in an ongoing evaluation and recertification process.

Disqualifying Contractors

A contractor will not be permitted to bid on any Harris County housing project unless they are eligible to do work with Harris County, the State of Texas, and are not debarred from working for the federal government. Reasons a contractor may be disqualified and ineligible for award under the programs may include, but are not limited to, the following:

1. Previous documented unsatisfactory workmanship
2. Previous documented untimely completion of work
3. Previous documented failure to provide or honor warranties
4. Previous documented use of unacceptable materials
5. Previously documented violation of any provision of a Contract
6. Being debarred from participating in federally funded projects
7. Being financially insolvent as determined by HCD or delinquent on Harris County real property taxes.

HCD may, at its sole discretion, prior to disqualifying a contractor, make some effort to resolve any problems through counseling and negotiations. If this option fails, the HCD director will notify the contractor that he/she is not eligible for award for rehabilitation projects under the Program.

Bid/Contractor Selection

Contract awards will be given only to eligible, qualified vendors following a formal/informal procurement process. Awards will be made based upon qualifications, experience, price, and/or to the vendor(s) whose offers are most advantageous to HCD. HCD will verify contractor eligibility prior to awarding any contract. The following information or documentation may be required from interested contractors during a formal procurement for rehabilitation services:

1. Management experience, including similar project experience, use of local subcontractors, and use of MBE/WBE and Section 3 businesses and/or workforce.
2. Complete and submit the Contractor Qualification Application.
3. Submit a Financial Statement for the last twelve months (or from the creation of the business applying if less than 12 months prior to application submission).
4. Submit Bank Statements for the last two months.
5. References, including project references, credit references, and public project references.
6. Capacity to complete the project, including financial statement, revenue, and capacity to perform.
7. Mandatory requirements such as bonding capacity and permits, and certifications.

Consideration will be given to Minority-Owned Business Enterprises (MBE), Women-Owned Business Enterprises (WBE), Disadvantaged Business Enterprises (DBE), Historically Underutilized Businesses (HUBs), Low-income local workers (Section 3), and other locally owned businesses whenever possible.

Control of cost:

Any changes to the agreed-upon work must be documented by a change order that indicates the change in work, change in price, and/or change in work completion dates. All parties must sign and date the change order. All change orders must be approved by HCCSD prior to making repairs. All

change orders must be attached to the original contract.

Change orders should be kept to a minimum and should only be for items that could not be reasonably known when the work specification was prepared (e.g. hidden damage that is uncovered only during the construction process).

Contract Award

Contract award is made based on the contractor's pre-priced unit costs, bulk pricing, bid solicitation, or task costs, which in some cases may be multiplied by the contractor's coefficient if applicable (the numerical factor that will represent the contractor's indirect costs, such as overhead, mobilization, administration, and profit). Pricing must be a firmly fixed price and cannot be changed and must reflect the executed contract costs. The issuance process will be as follows:

1. Whenever there is a rehabilitation contract opportunity, HCD or its authorized representative will inspect the properties to determine whether the property requires rehabilitation.
2. Upon determination of whether the property requires rehabilitation, HCD or its authorized representative will develop the scope, if applicable.
3. Once the properties have been inspected and the scope finalized, HCD will issue a job order or notice to proceed to the selected vendor(s).
4. Job orders may be awarded on a rotating basis within a pool of vendors.
5. Once HCD has provided a vendor with approval to proceed, the vendor must provide any applicable performance and/or payment bonds prior to beginning work.

Lead-based paint requirements:

No unit over 12 years will be allowed to participate in the HCCSD NSP. Therefore, lead-based paint requirements will not be an issue.

The table below shows the required inspections for rehabilitation projects:

Project Type	50% Complete Inspection	Final Inspection	Demolition Confirmation	TREC/MPS
Rehabilitation	YES	YES ¹		

7. In-house Inspection

All terms of the contract and approved amendments thereto must be fulfilled before a project can be closed out and the contractor paid the final payment for services rendered. The Final Inspection in each case will require the presence of the general contractor and a Program Specialist from the HCD. Construction Close-Out Procedures will include the following steps:

¹ For substantial rehabilitation only

Substantial Completion Inspection

- (i) A review of each and every line item in the work write-up in order to ensure that no item was overlooked. Make a final determination of the quality of the work and if the project meets programmatic goals and requirements.
- (ii) If the inspection reveals inferior work or work that is not in compliance with specifications, formally notify the contractor of the findings in the form of a “Punch-Out List” of substandard work tasks.

Final Inspection/Project Acceptance

The project is ready for final acceptance when it is determined by HCIS that the Contract has been fulfilled and that the Rehabilitation Project conforms to programmatic requirements.

- (i) Obtain the manufacturer’s warranty documents for all mechanical appliances (heating systems, water heaters, etc.) and a copy of the final certificate for termite treatment, if applicable.
- (ii) Initiate procedures for the Final Progress Payment.
- (iv) Obtain the contractor’s one (1) year warranty on workmanship
 - All work performed by the contractor will be guaranteed for a period of 1 year. Such a warranty will be stipulated in the construction contract between the contractor and the homeowner. For a period of 1 year, the assisted homeowner may require the contractor to correct defects or problems arising from his/her work under this contract. Should the contractor fail to do so, the assisted homeowner may take any necessary legal recourse as prescribed in the rehabilitation or new construction contract.

If a material man’s lien or laborer’s lien is filed against a rehabilitated/reconstructed property because of non-payment of wages or material bills by the general contractor or a subcontractor, any remaining payments, which include the final installment payment for rehabilitation services rendered, will not be paid until the lien is withdrawn. If the general contractor refuses to settle the matter with the laborer or materialman who filed the lien, the balance of the remaining payments/and the retained final payment will be utilized to pay for the unpaid services or materials, if the claim of the person filing the lien is found to be valid. The filing of a materialman’s lien or laborer’s lien may result in a contractor being temporarily or permanently denied participation in the Repair Program.

8. Eligibility Overview

To qualify for HCSFARFI Grant Assistance, an applicant must meet the following minimum criteria:

- Household income cannot exceed for LMI up to 120% of the area median income for Harris County.
- Applicants must be able to secure a first mortgage from a financial/mortgage institution as the 1st lien.
- Applicants must complete and submit all documentation required by HUD and HCD.

- The property must be located within Harris County, Texas, and cannot be located within the city limits of Houston.
 - The property must be the principal residence of the applicant.
 - See section 11 for additional eligibility requirements.
- Applicant must have two months of reserves at the time of closing

Affordability Period

The HCSFARFI is made available for eligible homebuyers in the form of a 0% interest, forgivable loan. The loan does not require monthly payments and is forgiven over an affordability period of ten (10) years.

Table 1

(Recommend/Propose):

Grant Assistance Amount (including but not limited to Price reduction/closing costs)

Affordability Period

\$30,000,001 or more

10 Years

Homeownership Assistance Amount	Affordability Covenant Period	Loan Forgiveness Rate per Year
Up to \$30,000	5 Years (with a Lien)	< 1 Year - 0%
		Year 1 - 20%
		Year 2 – 40%
		Year 3 – 60%
		Year 4 – 80%
		Year 5 – 100%
\$30,000.01 and over	10 years (with a lien)	< 1 Year – 0%
		Year 1 – 10%
		Year 2 – 20%
		Year 3 – 30%
		Year 4 – 40%
		Year 5 – 50%
		Year 6 – 60%
		Year 7 – 70%
		Year 8 – 80%
		Year 9 – 90%
		Year 10 – 100%

Grant Assistance may include, but not be limited to:

- Reduction in sale price from the- sell/list price

Sales Price Write-Down

Eligible households will be able to purchase homes at an affordable sales price, which will be reduced through financial assistance from the market sales price. The difference between the market sales price and the affordable sales price will be the assistance amount and will be limited to the amount necessary to achieve homeownership affordability. Although the amount of the write-down will be based on the homebuyer's need, the County will cap the maximum write-down to 40% of the home's value for those homebuyer households between 65% and 80% of AMI and 45% of the home's value for those households under 65% AMI.

The deferred forgivable loan will be secured by a deed of trust with a ten (10) year affordability period.

- Closing Costs
- 1st-year premium for homeowners' insurance, and when applicable, an individual windstorm (if not covered by the homeowner's policy) insurance
- Accessibility rehab (prior to closing or after transfer of ownership to the buyer)
- Home Warranty.

This is a forgivable Grant, and the homebuyer(s) will not make any scheduled payment to Harris County during the Affordability Period (soft 2nd lien).

If the homebuyer violates the terms and conditions of the loan, HCD may recapture the entire amount or a portion of the loan, depending on the length of time lapse from the date of settlement. A deed restriction (2nd Lien Deed of Trust with Loan Note) is placed on the property that provides for the recapture of the subsidy if the homebuyer:

- Sells the property within the affordability period;
- Is foreclosed on by another mortgage holder;
- Ceases to use the property as their principal residence;
- Fails to pay applicable property taxes, maintain required homeowner insurance, and HOA dues for the affordability period

Maximum Mortgage Payment

The potential homebuyer's 1st lien mortgage payment (including PITI) for the property should not exceed thirty-nine percent (39%-front ratios) of the household's gross monthly income. The backend ratio for the potential homebuyer should not exceed forty-two percent (42% back-end ratio). Exceptions to this rule will be evaluated on a case-by-case basis.

9.2.1 /Grant Assistance to meet mortgage and debt ratios (*recommendation/propose; further inquiry is needed*)

- a. Applicants who qualify and need Gap Assistance in order to meet front and/or back ratios, per household. Exceptions are allowed only if approved by the CSDHCD director on a case-by-case basis
- b. Applicant(s) must use an approved portfolio lender, as the standard Conventional and FHA will not allow the Seller to contribute any funds toward the Sales/Listing Price.
- c. To help reduce the qualifying ratios, Applicant(s) may also thru their chosen lender for the Mortgage Credit Certificate (MCC) program,

and if qualified, the credit amount will be applied as a credit toward the escrow payment.

First Position Lenders

Lenders that are acceptable for writing loans for the HCSFARFI include: State and National Banks, Savings Banks, Savings and Loan Associations, Credit Unions, and Mortgage Brokers. Those that will be considered on a case-by-case basis, depending on proposed Interest Rate and Repayment Terms, are: Non-Profit/Not for Profit Organizations, and Other Commercial Entities. Acceptable fixed rate and fixed term 15-30 years mortgage with the loan fully amortized at the end of the loan period. Interest rates and fees are required to fall within the usual and customary range for the program (see section 10). Subprime and adjustable-rate mortgage products are not allowed.

Displacement

The acquisition of any property in this program cannot result in the displacement of the present tenant. Any property purchased through the HCSFARFI must comply with the HUD Displacement, Relocation, and Acquisition requirements as well as the Uniform Relocation Act. The seller must sign a Notice to Seller of Real Property. The HCD Director/management has the discretion to determine on a case-by-case basis if a property with a tenant may be purchased for HCSFARFI.

9. Program Administration and Application Process

The Harris County HCD administers the HCSFARFI in coordination with the applicant's selected mortgage lender. Upon request, HCD will meet and train lenders in the HCD HCSFARFI process prior to submission of an applicant's request for HCSFARFI assistance. Coordinating the provision of assistance with the applicant's choice of lender's leverages the lenders underwriting expertise and capabilities and allows HCD the ability to review mortgage terms for compliance with HCSFARFI program guidelines and confirm the necessary gap (grant/price reduction) assistance to allow the buyer to achieve homeownership (meets underwriting guidelines for the 1st lien Lender and the County).

The Application Process

To qualify for HCSFARFI assistance to purchase a home, an applicant must meet the following requirements:

- Household annual income cannot exceed 80% of the LMI and 120% for UN of the area median income (AMI) for Harris County
- Applicants must have the financial ability to secure a first mortgage with a financial/mortgage institution. (HCSFARFI funds can be used for gap assistance, prepaids, principal reduction, and/or closing costs)
- Applicant shall provide documentation required by the U.S. Department of Housing & Urban Development (HUD) and documentation required by HCD.

Application Process Overview

Below is a summary of the application process for the HCSFARFI program:²

1. Pre-Application Advisory Services
 - a. For interested applicants who contact HCD for assistance, HCD will provide the interested applicant with an overview of the program as well as a list of participating lenders that can be utilized for the HCSFARFI. Additional lenders may be utilized after completing the required lender training.
2. Application Submission
 - a. Lender submits a completed application packet on behalf of the applicant that includes a prequalification letter. Used to collect required information, certifications, authorizations, and supporting documentation/verifications used to determine program eligibility
3. Applicant Evaluation & Eligibility Determination
 - a. Verification and calculation of household income, review citizenship status, clear title, and current on property taxes and child support payments, determine property location/eligibility, ownership status, etc.
4. AHPP Program Briefing
 - a. A briefing session will be conducted to inform eligible applicants of their requirements to receive downpayment assistance through the HCSFARFI Program
5. Final Determination of Assistance Amount
 - a. HCD staff reviews the mortgage lender packet once the applicant's mortgage loan is approved by the Lender
 - b. HCD staff to calculate the total amount of assistance (including prepaids, principal reductions, and/or closing costs) to be awarded to the participant, which will be listed in the final award letter sent to the lender
 - c. HCD prepares the HCSFARFI agreement, to be executed at closing, that includes the final award amount and all notes and stipulations regarding the affordability period
6. Compliance & Monitoring
 - a. Annually, the homebuyers must confirm residency and occupancy of the home as their primary residence, and the continuation of hazard, flood, and windstorm insurance as applicable.

HCD will establish a dashboard for applicants to utilize throughout the application process in order to check on application status, communicate with HCD staff, and upload required documentation.

The Lending Process

- The prospective homebuyer(s) who are interested in the program will be provided with a list of Preferred Mortgage Lenders to choose from. If an applicant chooses a lender that is not a Preferred Lender, HCD will offer training to the lender chosen by the applicant.

- If it is determined that the prospective homebuyer(s) is initially eligible by the Mortgage Lender, then the Mortgage Lender will forward the documents to HCHCD. At this point, HCD
- will review the documentation and contact the prospective homebuyer(s) to schedule an interview.
- The Earnest Money Contract must be finalized by the Seller and the homebuyer(s) with the final purchase price included in the contract. The contract must be legible and cannot have any cross-outs or initials on the purchase price or be changed during the qualifying and closing process.
- Applicant(s) contribute the required downpayment set forth by the Approved Mortgage Lender. There is no interest rate buy-down.
- Due to HUD funding guidelines, the homebuyer(s) are not allowed to receive any cash back at settlement. Any 'cash' due to the buyer/purchaser must be deducted from the total Grant Assistance provided by the County to the buyer.
- At the scheduled interview, the prospective homebuyer(s) will meet with one of the Lending Services' staff and provide all necessary documentation as well as sign all program forms.
- HCHCD can disapprove an applicant(s) based on but not limited to unable to qualify and approved for a 1st lien mortgage loan, falsify/fraudulent statement/information provided on any documents, failed to provide supporting document(s) to the County, including updated document and not meet the eligibility income requirements (see Section 11).
- After approval is received, HCD will issue an approval letter to the Approved Mortgage Lender and forward a copy of the letter to the homebuyer(s).
- The Approved Mortgage Lender must provide to HCD Lending Services clearance against both the EPLS and the OFAC listing concerning the submitted homebuyer(s) application on the lender's letterhead (signed and dated), or directly from the EPLS website and the OFAC on the credit report.
- After an approval letter is sent out by HCHCD and funding is ready, it is the responsibility of the Approved Mortgage Lender or Agent to schedule a time and date of closing with the Title Company. Once this is set, the Title Company should contact HCD at least twenty-four (24) hours in advance to make arrangements for the pickup of the executed seller closing documents or send the documents via express mail/courier services.
- On the scheduled closing date, the Title Company will forward the HUD-1 Settlement Statement/Closing Disclosure (CD) to HCHCD for approval. After approval, the HUD-1/CD will be forwarded to the Title Company, and closing will proceed. Closing may not proceed unless the HUD-1/CD is approved by HCHCD to the Title

Company.

10. Eligibility

Basic Eligibility Criteria

To be eligible for the HCSFARFI program, the applicant must:

- Qualify as a family as defined by HUD and HCD.
- Have a household income that does not exceed 80 % of LMI and 120% for UN of the area median income (AMI) for Harris County.
- Provide mortgage pre-qualification letter.
- Homebuyer Education Certificate from a HUD-approved agency with HUD Certified Counselors. (See Harris County Website for listing).
- Qualify on the basis of citizenship or the eligible immigrant status of family members.
- Provide social security number information for household members as required.
- Applicant must have a minimum credit score of 620.
- Consent to HCD's collection and use of family information as provided for in HCD-provided consent forms.
- First-time homebuyers, or those who have not owned a home in the past three years, are encouraged to apply.
- Investors or individuals who own or have an ownership interest in a property are not eligible.

HCD will incorporate "Warning: Any person who knowingly makes a false claim or statement to HUD may be subject to civil or criminal penalties under 18 U.S.C. 287, 1001, and 31 U.S.C. 3729" to any and all documents to be signed by the applicant.

Income Eligibility and Targeting

HCSFARFI requires that each applicant household provide their household income for the purpose of determining their eligibility to receive assistance. Income amounts will be verified through the Income Policies and Procedures. The Department of Housing and Urban Development's (HUD) Income Calculator or a similar calculator tool will be used to determine if the applicant meets HUD's low-to-moderate income criteria. The program will use the 24 CFR Part 5 definition of annual income. **(See Income Policies and Procedures)**. Household income must not exceed the low-income limit for the area for LMI households and up to 120 percent on a case-by-case basis. Income limits are established by HUD and updated annually.

Income limits are used only in determining a family's eligibility for the HCSFARFI. Income eligibility is determined by comparing the annual income of an applicant to the applicable income limit for the family size.

Recertification of Eligibility

HCD has determined that the initial determination of an applicant's eligibility will be valid for a period of twelve months from the date of the notice of eligibility. If the applicant does not close on a home and uses the HCSFARFI assistance in that period of time, the approval of eligibility will be withdrawn, and the applicant may be required to submit a new application and documentation. All information provided in the new application will be verified, and the applicant will be provided a new notice of eligibility or non-eligibility depending on the current

circumstances. This process is considered to be a recertification of eligibility for HCSFARFI assistance.

Recertification Process

HCD will conduct recertification of applicant eligibility, including income, family composition, and circumstances, if the applicant does not close on an HCSFARFI loan within twelve months from the date of notice of eligibility. The applicant will be required to 1) Certify that there have been no changes in family composition, circumstances or income that may affect his/her eligibility for the HCSFARFI assistance; OR 2) If there are any changes to family composition, circumstances or income, a new application process including verification of information will be necessary. This process will include gathering and verifying current information about family composition, income, and circumstances.

Using Income Limits for Targeting

At least 70 percent of the families assisted by HCD's HCSFARFI must be low-income families (defined as income not exceeding 80 percent of the median income for Harris County). HCD maintains records of families' income and tracks the distribution of assistance to ensure this income targeting requirement is met. There may be times when HCD must limit or postpone processing of applicants whose income exceeds the 80% limit in order to meet the income target requirement. If this occurs, these families will be notified.

Household Income

The HCSFARFI requires that each applicant household provide their household income for the purpose of determining their eligibility to receive assistance. Income amounts will be verified through the Income Policies and Procedures. The Department of Housing and Urban Development's (HUD) Income Calculator or a similar calculator tool will be used to determine if the applicant meets HUD's low-to-moderate income criteria. The program will use the 24 CFR Part 5 definition of annual income. (See Income Policies and Procedures). Income limits are established by HUD and updated annually.

Finances & Credit Check

A credit check will be conducted to verify the applicant's identity, that there are no judgments, liens, etc., and that child support payments are current if applicable. **Before the signing event, all applicants must be current on:**

1. Child Support Payments.

CDBG funds may not be used to pay delinquent taxes nor child support back payments.

Fraudulent Application

If an applicant knowingly makes a misstatement or omission in any statement, document, or application in connection with the Applicant's request for assistance, as determined at the sole discretion of the County, the Applicant may be prohibited from applying for HCSFARFI assistance for a period of five (5) years from the date the County notifies the applicant of its discovery of such misstatement or omission. In addition to the disqualification from the HCSFARFI, the Applicant may be subject to both civil and criminal prosecution and a demand for immediate repayment of any funds disbursed on behalf of the Applicant for rehabilitation work.

11. Certification Requirements to Receive Assistance

All applicants must agree to the following to receive assistance:

1. Sign an authorization to release information provided by the applicant(s) to state and federal agencies, as well as other third parties, in order to verify details submitted to the program. The applicant, co-applicant, and all household residents aged 18 or older are required to sign a release of information form (unless one of the eligible owner-occupants has provided power of attorney to the other to represent them, then the eligible owner-occupant does not need to sign a release).
2. Swear to the accuracy and completeness of all information provided to HCD under penalty of law.
3. Power of attorney: Applicant(s) may grant power of attorney to someone who can apply on their behalf. (Based on what the first (1st) lender accepts)
4. Agree to maintain homeowner and flood insurance if applicable.
5. Agree to occupy the home within 30 days from settlement. HCD will make a decision regarding exceptions on a case-by-case basis.
6. Agree to occupy the home as his or her primary residence for the duration of the affordability period.

HCD will incorporate “Warning: Any person who knowingly makes a false claim or statement to HUD may be subject to civil or criminal penalties under 18 U.S.C. 287, 1001, and 31 U.S.C. 3729” to any and all documents to be signed by the applicant.

Citizenship Requirements

The homeowner must be a United States citizen, or an eligible immigrant as verified by a signed declaration and one of the following:

1. U.S. Citizen
 - a. A United States Passport
 - b. Birth Certificate
 - i. In the absence of a birth certificate, an elderly applicant may substitute a Social Security Benefits Determination document for the birth certificate.
 - c. Certificate of Naturalization
2. Eligible Immigrant
 - a. Form I-551 Alien Registration Receipt Card
 - b. Form I-94 Arrival Departure Record annotated with one of the following:
 - i. Admitted as a Refugee Pursuant to Section 207
 - ii. Section 208
 - iii. Section 243 (h) or “Deportation” stayed by the Attorney General
 - iv. Paroled Pursuant to Section 221 (s)(5) of the USCIS
 - c. Form I-94 Arrival-Departure Record with no annotation, accompanied by:
 - i. A final court decision granting asylum (only if no appeal is taken)
 - ii. A letter from a USCIS asylum officer granting asylum (if the application is filed on or after 10/1/90) or from a USCIS district director granting asylum (application filed before 10/1/90)
 - iii. A court decision granting withholding of deportation

- iv. A letter from an asylum officer granting withholding or deportation (if the application filed on or after 10/1/90)
- v. A receipt issued by the USCIS indicating that an application for issuance of a replacement document in one of the above-listed categories has been made and the applicant's entitlement to the document has been verified.

Flood Insurance

HCD will purchase Flood Insurance for the 1st year for all properties assisted by the HCSFARFI. Homeowners will be required to maintain the insurance for the affordable period within the 100-year floodplain.

Homeowners Insurance

HCD will purchase Homeowners Insurance for homes for the 1st year (for LMI applicants only). Homeowners will be required to maintain the insurance for the affordable period.

Windstorm Insurance

HCD will purchase Windstorm Insurance, where required, for the 1st year. Homeowners, in areas that require windstorm insurance, will be required to maintain the insurance for the affordable period.

Private Insurance

HCD will not cover the cost of a private mortgage insurance policy (called PMI or private mortgage insurance on conventional loans) required to secure the first lien mortgage.

12. Document Management and Record Retention

The HCSFARFI will adhere to the strict retention policies of either Harris County, the State of Texas, or HUD for the use of CDBG funds as required by the grant.

All official records on programs and individual activities shall be maintained for at least ten years beyond the closing of the grant. Applicant records may be maintained electronically.

13. Compliance and Monitoring

HCD will establish a monitoring/oversight protocol to ensure that HCSFARFI assistance is being provided to eligible owners for eligible properties and receiving the proper assistance amounts.

14.1 Conflict of Interest

Under the CDBG program regulations (24 CFR 570.611), in general no person who is an employee of the recipient (Harris County) who exercises any function, or decision-making responsibilities with respect to CDBG, or HOME funds may obtain financial interest or benefit from these activities either for themselves or for those with whom they have immediate family ties.³

Exceptions to this rule are available, but only upon written review and approval by HUD, after public disclosure of the conflict is made and the County Attorney has ruled that this conflict does

² Family is defined to include parents (including mother-in-law and father-in-law), grandparents, siblings (including sister-in-law and brother-in-law), and children of an official covered under the CDBG conflict of interest regulations at 24 CFR Sec. 570.489(h).

not violate local or state law. In general, HCD employees and immediate family members directly involved in the administration and operation of the HCSFARFI are not eligible to receive assistance from the Program.

Applicants who knowingly participate in the Program and receive benefits, and who have immediate familial ties to HCD employees, shall be referred to the County Attorney for further action. Harris County employees employed outside of HCD who have no direct involvement with the HCSFARFI are not considered subject to the Conflict-of-Interest policy.

Section 3

Harris County will adhere to all Section 3 requirements and will perform regular monitoring of any required contractors and interlocal partners and their contractors through HCD's Section 3 Coordinator.

Record Retention

The HCSFARFI will adhere to the stricter retention policies of either Harris County, the State of Texas, or HUD for the use of CDBG funds as required by the grant.

All official records on programs and individual activities shall be maintained for at least ten years beyond the closing of the grant. Applicant records may be maintained electronically.

Project Closeout

Harris County HCD will ensure records are complete, that all affordability requirements are adhered to, and that the county has performed all monitoring processes. The County will create project and grant closeout checklists that will be maintained with the project file.

Anti-Fraud and Compliance Policies

Harris County will aggressively investigate all allegations of misconduct, fraud, waste, or abuse regarding eligibility and the disbursement of award amounts to applicants. Information in both English and Spanish has been posted on the Harris County HCD website.

Contact

Website: HCD@HarrisCountyTX.gov

Email: info@harrisrecovery.org

Phone Number: **832-927-4955**

The provisions of the guidebook may be amended, or exceptions granted from time to time, as determined and approved in writing by the Director of the Harris County Housing & Community Development, by order of the Harris County Commissioners Court, and/or in accordance with the requirements dictated by the U.S. Department of Housing and Urban Development.