

# Shared Equity Home Financing Policy

## Champlain Housing Trust

Effective Date: October 2012

Revised: January 2020

This policy applies to all financing of CHT Shared Equity properties, both for the purchase and refinance of a CHT home. This policy is intended to help home owners obtain safe, affordable financing, and preserve home equity both for the home owner and the public investment of funds through the Shared Equity Program.

### General Mortgage Requirements

The criteria below pertain to all purchase and refinance loans for CHT properties. Exceptions to the following may be allowed only under extenuating circumstances as recommended by staff with HOC Board Committee approval.

#### Allowable Loan Terms:

- 1) Maximum term is 40 years, no minimum term, fully amortizing, fixed rate loans.
- 2) Must be from an approved lender. CHT staff will maintain a list of lenders, which have agreed to the terms of the CHT's restrictions. The list is not intended to limit lender choice, but rather ensure that lenders are familiar with the CHT's loan requirements and resale restrictions. Non-participating lenders are encouraged to contact CHT to be added to the list.
- 3) Front-end ratios, defined as the homeowner's monthly Mortgage, Taxes, Insurance, Homeowner's Association, and CHT Lease or Condo Membership Fees divided by the homeowner's monthly gross income, should not exceed 35%.
- 4) Total debt ratios should not exceed 45%.
- 5) Front end ratio may be extended by up to 3% **if three of the following criteria are met:**
  - A) Median credit score must be at least 700;
  - B) New house payment does not exceed 110% of the buyer's current housing payment;
  - C) Buyer will have three months PITI and HOA dues in the bank after closing;
  - D) Buyer has low income but will have a co-signer;
  - E) Revolving debt ratios is less than 50%. The revolving debt ratio is found by dividing a household's credit card debt by the household's credit card limits.
- 6) Interest rate may not exceed 2% above the Fannie Mae/Freddie Mac 30-year rates.

#### Loan Types Not Allowed:

- 1) NO stated income loans
- 2) NO interest-only loans
- 3) NO negative amortizing loans
- 4) NO adjustable rate loans
- 5) NO balloon payment loans
- 6) NO reverse mortgages

## Refinancing:

In addition to the above requirements, the following applies **only to refinances** of Shared Equity homes.

Owners of a CHT Shared Equity home may refinance their original mortgage provided that they are current with CHT lease fees, membership fees, and land taxes, comply with the following requirements, and are approved by a CHT Staff Committee:

- 1) Any homeowner wishing to refinance **MUST** attend a one-on-one counseling session with the Stewardship Specialist at CHT. Topics covered will include the pros and cons of refinancing, eligible loan products and approved lenders, the refinancing process and timeline, applicable CHT fees, and review of any loans/liens on the property that may need to be repaid upon refinance.
- 2) A homeowner may refinance a mortgage used to purchase his/her unit regardless of the loan to value ratio if the refinance is a solely a rate and/or term refinance of the existing principal balance plus accrued interest and loan closing costs, not to exceed 100% combined loan to option price (CLTOP) (Combined loan equals all liens against the property and Option Price equals maximum resale restricted price as calculated by CHT staff according to homeowner's legal documents).

Exception: If a Shared Equity owner receives a CHT rehab loan, they would be allowed to borrow up to 105% of their option price.

- 3) A cash-out refinance cannot exceed a **combined loan to option price (CLTOP) ratio of 80%**, unless the purpose of the refinance is for one of the following reasons:
  - a) Removing a co-owner from title to the property and paying out their equity
  - b) Paying off liens on the property
  - c) Creating a significantly better financial position for the homeowner based on income to debt ratios and/or saving per month
  - d) Funding essential maintenance of the home

A homeowner whose refinance request does not meet the applicable criteria above may ask the CHT HomeOwnership Board Committee for an exception to this policy. The final decision may take up to six weeks.

One of CHT's most important roles is to be a steward of the public funds invested in each shared equity home. Acting in this capacity, the CHT Staff committee consisting of at least three HomeOwnership Center managers will evaluate each refinance request to determine whether a transaction presents risk, and may consider the factors including but not limited to the following list of "Red Flags" in making its decision:

- 1) Delinquency on mortgage payments, CHT fees or land taxes, and or a CHT loan
- 2) Unusually high closing costs
- 3) Cash out to pay unsecured debt and/or multiple cash out refinances within past six years
- 4) Refinanced or took out another home equity loan within the past two years
- 5) Refinancing into worse loan terms
- 6) Poor property condition

The committee may consider input from other staff in making its recommendation. The committee will make a recommendation that must be approved by the Director of Homeownership. The Committee may approve or deny the request, or approve the request subject to conditions at its discretion. Appeals to decisions will be presented to the HOC Board Committee for review. Their decision will be final.

## CHT Fees:

Owners of a Shared Equity Home will be assessed a fee for costs associated with processing a refinance request.