

## **Piedmont Housing Alliance Down Payment and Closing Cost Loans Frequently Asked Questions**

### **1. What are the benefits of using Down Payment and Closing Cost Loans?**

- a. This program allows you to achieve homeownership without waiting until you have saved up a down payment.
- b. No mandatory monthly payment on these loans.
- c. Pay back required only if you sell the house, move out of the house, or refinance your first mortgage.
- d. You can make voluntary payments to reduce the balance of the loan and build equity.

### **2. Where do the down payment and closing costs loan programs come from?**

A: The funds we lend come from a variety of sources- federal government, state government, local government, for-profit organizations and nonprofit organizations. Since the funds come from so many different sources, each of the guidelines for the source of funds is different. The funds have income, jurisdiction and loan program restrictions and guidelines.

### **3. Are the down payment and closing cost loan programs grants?**

A: No. All of our down payment and closing cost loan programs are **loans with deferred payment**. The homebuyer is not required to pay back the loan unless they 1) sell the home 2) refinance the first mortgage or 3) move out of the property. The homebuyer is not required to make regular payments to reduce what they owe but each loan has either interest or equity share clauses which will increase the amount owed over time. Occasionally we are able to loan money that comes from the commonwealth of Virginia which is called "HOME funds" these funds are still a loan, however the principle is forgiven after a specified amount of time if the homebuyer stays in the home.

### **4. Do any of the down payment and closing cost loan programs have an interest rate?**

A: Yes! Some of our funds carry a SIMPLE interest rate applied to the original amount borrowed and accrues daily and is only calculated when the client is ready to pay the loan in full. Here is an example of how this works:

The Smith family buys a home with a purchase price of \$100,000. They are able to get a mortgage for \$90,000 and a loan from Piedmont Housing Alliance for \$10,000 as down payment. At or before their closing, the Smith family signs off on disclosures that explain that the loan they receive from PHA accrues simple interest. After closing, the Smith family is required to pay their mortgage lender a monthly payment for the \$90,000 mortgage. They are not required to pay Piedmont Housing Alliance a monthly payment for the \$10,000. However the \$10,000 accrues 3% simple interest each year – each year \$300 would be added to the balance of the loan. This means that if the Smith family makes no payments to PHA and decide to sell their home in 10 years they would owe back to PHA at total of \$13,000 (\$10,000 principle + \$3000 interest) when the home sells.

### **5. Can I use the down payment and closing costs loan programs for any house in the state of Virginia?**

A: No, the funds can only be accessed for homes purchased in the following areas: City of Charlottesville, Counties of Albemarle, Fluvanna, Greene, Louisa and Nelson.

## **Piedmont Housing Alliance Down Payment and Closing Cost Loans Frequently Asked Questions**

**6. Someone told me that they were rejected by PHA down payment assistance because their house payment was too low. What are they talking about? Is that true?**

A: They would have been referring to what is called the minimum housing ratio requirement. And yes, this is true. If the mortgage payment for the home you are buying is below a certain amount then you will not be eligible for our down payment and closing cost loans. Depending on your household income level your mortgage payment must be above either 23% or 26% of your gross (pre-tax) monthly income. When you sit down with one of our counselors to be evaluated for our loan programs they will explain this in more detail.

**7. What is a ratified contract?**

A: A ratified contract is a purchase and sale agreement between buyer and seller that has been signed by both parties. When a buyer puts an offer on a home they sign a purchase and sale agreement and submit it to the seller. That agreement becomes a ratified contract when the seller signs it and both signatures are on the document. A ratified contract is one of the many documents needed to reserve Piedmont Housing Alliance's down payment loan funds for the buyer.

**8. I have at least ten percent of the purchase price to put down on the purchase of my home, can I still get funds from Piedmont Housing Alliance?**

A: No. Our loan program is not available to buyers who have more than 10% of the purchase price in liquid assets. Liquid assets are defined as any money available to the buyer (including gift funds) that don't incur a penalty for use. This includes cash held outside the banking system.

**9. I just want to see if I'm eligible for this assistance before I go shop for a house why do I have to submit all this paper work?**

A: Because the funds have so many restrictions and guidelines Piedmont Housing Alliance must have the following documents to evaluate if you are income eligible for the loan programs:

- a. Fully Completed Intake Form (all 7 pages must be complete and signed)
- b. VHDA Homebuyer Class Certificate of Completion
- c. Proof of a credit score of 620 or above (this could come from your lender if they have pulled your credit or you may pay \$25 for us to pull a tri-merge soft touch report for you)
- d. Copy of your current Driver's License or Government Issued ID
- e. Proof of all Household Income which includes the following:
  - i. Paystubs – most recent month and must show year to date earnings
  - ii. Child support/Spousal Support Court Order showing amount and frequency
  - iii. Verification of Employment – this is ordered by your PHA caseworker – you are required to give us the contact information for who can verify your employment
  - iv. Bank Statements for all accounts for all household members – 3 most recent months, must be complete statement with all pages even if they are blank
  - v. Federal Income Tax Returns (form 1040)– Most recent 3 years (state return not needed)
  - vi. W-2 Statements for all jobs from the most recent 3 years
  - vii. Award letters for social security or disability income
  - viii. Proof of any and all current income (bonuses, dividends, commissions etc...)
  - ix. If you are Self Employed we need 3 most recent years of tax returns with schedule C and a current profit and loss statement.

## **Piedmont Housing Alliance Down Payment and Closing Cost Loans Frequently Asked Questions**

**10. So if I am eligible for this loan program do I need to invest any of my own money into the purchase of this home?**

A: Yes! You must invest at least 1% of the purchase price of your own money into the purchase of your home. We verify that you have done this by looking at your closing disclosure prior to your closing. The 1% can include amounts you pay for the Home Inspection, Appraisal and Earnest Money Deposit. Here is an example: The Douglas family decides to buy a \$200,000 home and use our funds for down payment and/or closing costs. By the time they close or at closing they will need to spend at least \$2000 of their own money on the purchase. So if they pay \$450 for the Home Inspection, \$450 for the Appraisal and \$500 for the Earnest Money Deposit they will need to put in another \$600 at closing to show that they are at least 1% invested in the transaction.

**11. What are the repay terms of Piedmont Housing Alliance's down payment and closing costs loans?**

A: The repay terms on the loan you receive from Piedmont Housing Alliance will depend on where your funds come from. Please rest assured that your caseworker will thoroughly explain the terms of repay to you based on which funds you receive. You will also sign disclosures which explain your repay terms and you will keep a copy of this with your closing documents for future reference.

**12. I already have land and need help with a down payment to build a home on it, can Piedmont Housing Alliance help me with this?**

A: The short answer to this is more than likely no, however it is worth talking to a caseworker about the details. Typically in a situation like this your land will act as your down payment for the loan to build your home. Since you already have a down payment in your land Piedmont Housing Alliance is unable to assist you with a down payment or closing cost loan.

**13. I found a home that needs work that I want to buy and fix up, can Piedmont Housing Alliance help me with my down payment?**

A: More than likely, no. Our funds require that the home purchased be "Turn-Key". A home inspection must be done by a certified home inspector and PHA will require that all items marked for repair be repaired prior to closing. If the home just has cosmetic issues like old but working appliances then the home may be eligible.

**14. I want to buy a modular home or a double wide, can Piedmont Housing Alliance loan me money for a down payment?**

A: This depends on what the home is built on. Our funds can only be used for fixed foundation homes that are hooked up to utilities and taxed as real estate.

**15. How do you calculate income?**

A: All of our income calculations are based on gross, or pre-tax and pre-deduction income. Depending on your income type we calculate your income based on what you have earned in the past as well as what you expect to earn in the future. If you have worked the same full time job for several years and plan to continue to work there we would calculate your income by averaging your current year to date gross income and project that for the rest of the year. For part time work we look at how much you have worked on average and project that for the rest of the year. For self-employment income we take two years of tax returns with schedule C and average your earnings. If you have been self-employed for less than two years we would evaluate your profit and loss statements to arrive at your gross annual income. For individuals receiving Social Security or Disability

## **Piedmont Housing Alliance Down Payment and Closing Cost Loans Frequently Asked Questions**

income we calculate that by what the most current award letter states. In addition to our calculations we order a Verification of Employment from your employer which includes wage information so that we can be sure to have the most accurate picture of what your gross annual income is.

### **16. What types of income are included in the calculation?**

A: All money that comes into the household is included in our calculations – this is very different from how your lender will calculate your income. Common income types are wages earned at either full or part time jobs, income earned from self-employment, child or spousal support – this can be court ordered or non-court ordered. Income will also include regular deposits to your bank accounts not documented by paystubs or profit and loss statements.

### **17. Am I guaranteed funds?**

A: Your funds can not be reserved for you until we have received all documents requested from both you and your lender. You must have a ratified contract before funds can be reserved. Our fund balances change on a daily basis so until your funds are reserved for you there is no guarantee that we will have funds available when you put your offer in on a home. If you cannot purchase the home without our assistance you can put our funds as a contingency in your contract. It would read something like “Purchase contingent on receiving down payment funds from Piedmont Housing Alliance”.

### **18. How do I know how much I will receive in DPL?**

A: Our down payment and closing cost loans are awarded according to need. Once we have your ratified contract and documents from your lender we calculate what you will need to be able to close on your home and provide that amount as long as it is not above the overall limit set by the fund’s guidelines.

### **19. How do I know if I can access Piedmont Housing Alliance’s down payment and closing cost assistance loans?**

A: By submitting all of the documents listed in question #9.

### **20. How do I know if I am eligible to receive the DLP?**

A: Your caseworker will evaluate all of your documents and let you know whether or not you are eligible.

### **21. What are the income limits for the programs?**

A: We have three different income limit guidelines depending on the fund. And these income limits change each year. Your caseworker can give you updated income limits when you meet with them.

### **22. Do I have to be a first time home buyer to use the funds?**

A: Yes, however a first time homebuyer is defined as someone who does not own and has not owned real estate property in over 3 years. If you do not own any real estate property now but sold a home 5 years ago you would be considered a first time homebuyer.

### **23. What are my next steps?**

A: Complete an intake form and submit the documents on the first page. Once you have sent these in to our main desk a housing counselor will reach out to you to set up an initial appointment.