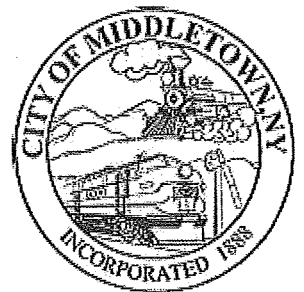
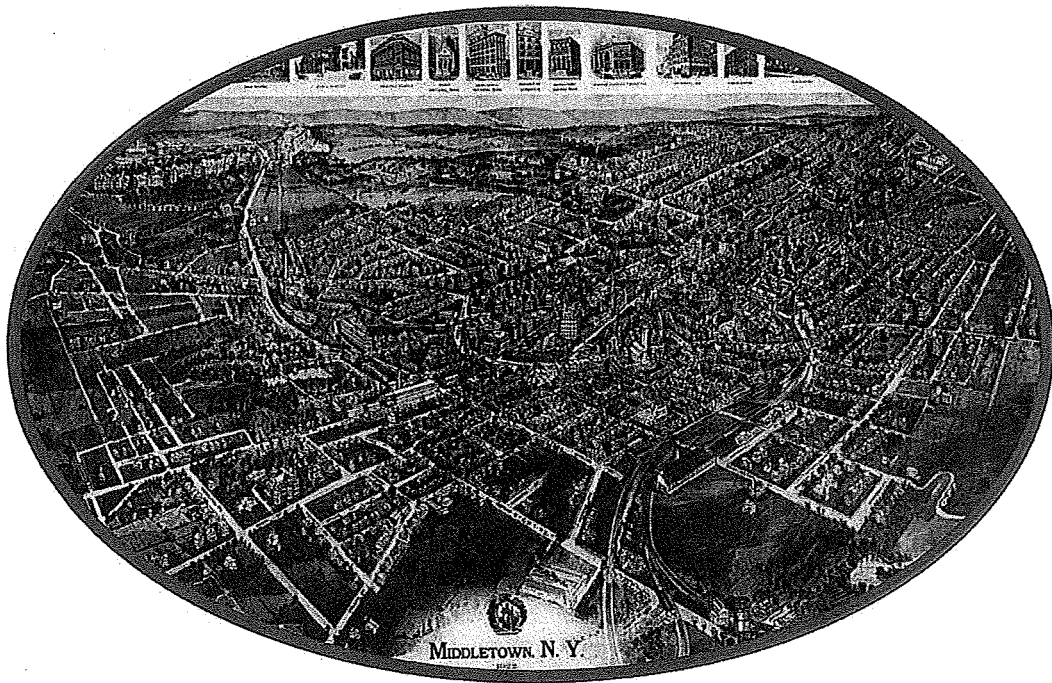


City of Middletown
Community Development Agency
Home Ownership Program Guidelines



Adopted: City of Middletown Community Development Agency 11/03/14

CITY OF MIDDLETOWN COMMUNITY DEVELOPMENT MCDA

Middletown Homeownership Opportunities Program

Program Design and Guidelines

Background and Purpose:

The City of Middletown has witnessed a significant number of vacant residential properties throughout its neighborhoods. One of the most devastating impacts of foreclosure is the creation of a vacant building, which becomes a magnet for crime and drugs. Without timely intervention, foreclosed housing stock may be demolished or repurchased by investors who under improve the properties and create another cycle of disinvestment. In some cases, when housing stock is demolished it cannot be replaced due to high construction costs and the value of the surrounding homes is often diminished with the creation of a vacant lot. When foreclosure is unavoidable, lenders, municipalities and community based organizations must focus efforts on preserving properties for affordable homeownership by a new owner occupant.

As a result of the most recent economic recession, many homeowners were faced with bank and tax foreclosure and were unable to remain in their homes. There are a number of homes that are now under ownership of the City. The City of Middletown in conjunction with the recently formed City of Middletown Community Development (MCDA) is now working together to rehabilitate these homes and offer them to homebuyers in an effort to revitalize the neighborhoods, entice new investment and occupy once vacant properties with new owners and families.

The MCDA is a public benefit corporation which has been authorized to be reestablished by New York State legislation on July 18, 2012 at the request of the City of Middletown. It functions as an "Urban Renewal Agency" under Articles 15, 15-A, and Section 633 of Article 15-B of the General Municipal Laws of the State of New York and was enacted into law as Chapter 200 of the Laws of 2012.

The MCDA's purpose is to plan and implement programs involving the rehabilitation and revitalization of both the residential and commercial sectors of the City of Middletown, foster economic growth, provide assistance to public service organizations, eliminate blight, promote neighborhood stabilization, and improve housing opportunities for low- and moderate-income residents of the City of Middletown.

The MCDA will implement its mission by undertaking initiatives principally geared toward the elimination of blighted and deteriorated conditions existing among the City's residential and commercial properties. The MCDA will acquire blighted properties, provide resources for rehabilitation of acquired properties, and will create financing mechanisms to allow for the acquisition of rehabilitated properties for homeownership by low- and moderate-income residents

The MCDA has created the Middletown Homeownership Opportunity Program (MHOP), which is an acquisition- rehab-resale program for City-owned single and two-family homes. These homes, once rehabilitated, will be made available to qualified homebuyers at below market value prices. The goals of the MHOP is to reclaim vacant, abandoned properties for affordable housing, strengthen blocks and neighborhoods by eliminating the blighting effects of vacant properties, and enforce the City codes and City building code requirements.

The MCDA shall impose the following requirements under the MHOP:

1. Benefits applicants that meet eligibility requirements as detailed above.
2. Program income derived through the MHOP may only be used by the MCDA on eligible public benefit community development activities, programs and projects that assist households whose

incomes do not exceed one hundred twenty percent (120%) of the Orange County area median income as published by the U.S. Department of Housing and Urban Development, adjusted for household size. A Regulatory Agreement restricting ownership, occupancy, and resale of each Home to Eligible Households for a term of 10 years will be executed by each Eligible Household acquiring a Home through the Program and will be recorded against each such Home concurrently with close of escrow for the conveyance to such Eligible Household.

3. Households acquiring a home pursuant to the MHOP must occupy the home they acquire as their primary residence, obtain a low-risk mortgage loan, and attend a home buying course with a HUD certified counselor.
4. Homes acquired using MCDA funds shall be rehabilitated according to the standards established by the MCDA and all code violations shall be cured.
5. Each home acquired and rehabilitated through the MHOP must be sold to an Eligible Household at a price that does not exceed the total cost of acquisition, rehabilitation, program delivery, administration and management and redevelopment, plus transaction (escrow and title) costs.

The eligible home buyer will receive up to \$40,000 as a grant toward the purchase price of the home. The grant will be in the form of a soft, non-interest bearing, second mortgage that diminishes 20% per year over a 10-year period beginning after the 5th year according to the following recapture table. The home buyer cannot refinance to cash out equity or transfer ownership within the 10-year recapture period.

Recapture Period	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Percent	100%	100%	100%	100%	100%	80%	60%	40%	20%	0%
Grant Balance	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$32,000	\$24,000	\$16,000	\$8,000	\$0

Program Benefits:

The MHOP model of acquisition-rehab-resale is critical in stabilizing the real estate market and revitalizing once vacant, foreclosed or abandoned properties. Benefits to the program include:

- Immediate site control and responsiveness to open, vacant and vandalized properties and other forms of vandalism. This is accomplished by the MCDA being the titled owner to the properties and being able to access the homes quickly and secure the homes from further vandalism and deterioration.
- Immediate marketing of property in order to reduce the time period between vacancy and post rehabilitation. Banks and other private owners who have abandoned their properties wait months, or sometimes years, to market their properties.
- MCDA maintains the sole ability, with input from neighborhoods and block clubs, to determine the best future use of property (i.e. demolition or rehabilitation).
- The ability to select a trusted and financially capable 3rd party contractor to undertake a thorough, timely and proper rehabilitation.
- MCDA maintains the ability to oversee construction and ensure property is rehabilitated.

- MCDA, at times, is able to secure properties at a substantially reduced acquisition cost as a public benefit, 501 (c)(3) corporation, which allows for a greater degree of rehabilitation to be undertaken and below market sales price to entice new investment and revitalize neighborhoods.
- The program creates revenue for MCDA in order to fund additional community development and related activities that benefit the community.
- Returns vacant, foreclosed and abandoned property to productive use without state or federal subsidies, which have been consistently declining.

Basic Participant Eligibility:

- Applicant must meet the program income limits, which are based upon the State of New York Mortgage (SONYMA) guidelines and are subject to change. If household income is lower than \$79,770 - lower interest loan products may be available:

Household Size	Maximum Income
1 - 2 persons	\$99,720
3 or more persons	\$116,340

- Cannot currently own a residential property and must continue to reside in the property as their primary residents
- Complete a Homebuyer Education Program administered through Pathstone, a HUD Certified Housing Counseling agency (must show original certificate)
- Have 3% of the purchase price for the use of down payment (may be less or more depending upon eligibility, income, grant program and loan program)
- Have sufficient resources for closing costs associated with the purchase
- First lien loan must be a fully amortized loan of up to 30 years with an interest rate that does not exceed the prevailing market rates for conforming loans. "No Doc" loans, interest only mortgages, or balloon mortgages are not accepted for program participation
- First lien loan (lender) must be
- Investors are NOT ALLOWED to participate in this program

Application Process:

- Complete a Pre-application form and submit a copy to the MCDA and PathStone
- Attend an informational session with MCDA and PathStone
- Complete a Full Application and submit with all required attachments to MCDA and PathStone
- Complete a Homebuyer Education and Counseling Program through PathStone

GUIDELINES

The MHOP has been established by the MCDA to provide for the acquisition, rehabilitation, and resale to Eligible Households at an affordable housing cost of foreclosed or abandoned and vacant single-family or two-family homes. The MCDA reserves the right to modify these Guidelines at any time and with or without notifying any interested individuals or entities. Minor amendments to these Guidelines, including amendments to procedures or time limits described herein, may be made by the Executive Director. Major, substantive amendments to these Guidelines must be approved by the MCDA Board of Directors. The following Guidelines set forth the rules, regulations, and procedures for implementation of the Program:

Section 1: Contractors

- A. DESCRIPTION. The MCDA shall issue a request for proposal and/or qualification (RFP/Q) to solicit proposals from general construction companies (Contractors) with extensive experience in housing rehabilitation to participate in the MHOP. The MCDA will utilize Contractors to assist in the rehabilitation of Homes. Each Contractor shall enter into an agreement with the MCDA pursuant to these Guidelines (Contractor Agreement), which Contractor Agreement shall require the Contractor to provide services to rehabilitation the selected MHOP property

Contractors will be encouraged to utilize sub-contractors, suppliers, and other vendors located in the City of Middletown and Orange County. The MCDA retains complete discretion to contract with one or more (or no) Contractors for residential rehabilitation / construction services implementation for the Program, from time to time. The number of Contractors selected to participate in the program will be based upon funding levels, capacity of Contractors and the volume of qualified properties in the MHOP area.

- B. RFP/Q PROCESS. The RFP/Q process will be used to consider and evaluate proposals and qualifications for the selection of one or more applicants (each, an "Applicant") interested in becoming Contractor. The RFP/Q process may be used at any time to add or replace existing Contractors. An evaluation panel of individuals selected by the MCDA will review each complete application and proposal package submitted by an Applicant and make recommendations regarding the selection of Contractors. The MCDA Executive will review the recommendations of the evaluation panel and make final recommendations to the MCDA Board regarding the selection of Contractors. Upon selection by the MCDA Board of one or more Contractors to participate in the MHOP, each selected Contractor will enter into a Contractor Agreement with the MCDA which sets forth the obligations of each party under the MHOP.
- C. MINIMUM QUALIFICATIONS. To be considered, the Contractor must satisfy the minimum qualifications set forth in these Guidelines and any and all additional qualifications required by the MCDA. The minimum qualifications are as follows:
1. The Applicant must have extensive rehabilitation and construction experience, including substantial rehabilitation of single-family homes, 2-4 family homes, condominiums, or townhomes in the previous 5 years. The Applicant's proposal must show that the Applicant has substantial experience evaluating the condition of homes, including testing for lead based paint and asbestos; evaluating and remedying building code violations, including illegal room additions and conversions; preparing a written scope of the anticipated rehabilitation work to be performed at residential properties; determining and budgeting for anticipated rehabilitation costs including preparation of project budgets; and obtaining required building permits and inspections.

- G. **REMOVAL OF CONTRACTOR.** In the event a Contractor fails to perform to the satisfaction of the MCDA pursuant to the MHOP, these Guidelines, and all agreements executed by the Contractor pursuant hereto, the MCDA may elect to suspend or permanently terminate the Contractor from participating in the MHOP in its sole, reasonable discretion. The process to suspend or terminate a Contractor participation in the MHOP shall be described in more detail in the Contractor Agreement entered into between the Contractor and the MCDA.

Section 2: Rehabilitation of the Properties - General Terms (see Contractor/Agency Contract for specific language)

- A. **DESCRIPTION.** Properties acquired through the MHOP shall be rehabilitated by the Selected Contractor in accordance with the Rehabilitation Specifications, Schedule & Agreement.
- B. **MINIMUM STANDARDS.** The property must be in compliance with, but not limited to, the following:
1. All City of Middletown Municipal Code requirements and NYS Building and Energy Codes
 2. Existing zoning and property use codes and regulations
 3. Health, safety and environmental regulations for residential properties
- C. **COMMENCE REHABILITATION.** The selected Contractor shall commence the rehabilitation of a property within 10 calendar days of award of contract. The selected Contractor shall complete the rehabilitation work within 45 calendar days after commencement of the rehabilitation. The MHOP staff, in their sole discretion, may approve extensions of the time to commence or complete rehabilitation.
- D. **CHANGE ORDERS.** In the event there are any changes to the project schedule, scope of work or costs after the Rehabilitation Contract & Agreement have been approved and executed, a written change order request must be submitted to the MCDA for consideration. The MCDA shall have 5 business days (defined as Monday through Friday, excluding holidays) to approve or deny the change order. In the case of time and project management sensitivities, an approval within 24 hours may be required. All proposed changes to the scope of work must be approved by the MCDA in writing before any such changes are implemented. Any changes made without the approval of the MCDA shall constitute a default under these Guidelines and the Contractor Agreement.
- E. **REHABILITATION INSPECTIONS.** The Selected Contractor shall obtain all required City of Middletown building permits prior to commencing any rehabilitation work. During the rehabilitation work, the MCDA may at any time inspect and evaluate the progress and quality of the rehabilitation. If the MCDA is not satisfied that the rehabilitation is proceeding in accordance with the time schedule set forth in the Agreement, that the quality of the rehabilitation conforms to the approved Rehabilitation Schedule and Scope of Work, or that the actual cost of the rehabilitation is likely to exceed the approved Rehabilitation Costs as set forth in the rehabilitation budget, the MCDA shall issue a correction notice ("Correction Notice") to the Selected Contractor. The Selected Contractor shall be required to cure all deficiencies noted in the Correction Notice within fifteen (15) calendar days from the date of the Correction Notice (or such longer period of time as may be approved by the MCDA, in their sole and absolute discretion); the Selected Contractor shall be fully responsible for all costs incurred to cure all deficiencies set forth in the Correction Notice. In the event the selected Contractor does not adequately address and cure the deficiencies set forth in the Correction Notice, MCDA shall have the right to cure such deficiencies and to obtain reimbursement of such costs from the Selected Contractor.

F. FINAL INSPECTION AND CORRECTIONS. The Selected Contractor shall notify the MCDA in writing within two (2) calendar days of completing the rehabilitation work at a property. Within 7 calendar days of receiving such notice, the MCDA will conduct a final inspection of the property to ensure that the rehabilitation has been satisfactorily completed in accordance with the approved scope of work and any change orders. The MCDA will issue correction notices for any items included within the scope of work or approved change orders that require corrections. The work performed pursuant to the approved Rehabilitation Contract and change orders must be completed to the satisfaction of and approved by the MCDA and the City's Building Department. Once approved by the MCDA, a Notice of Completion will be issued by the MCDA evidencing satisfactory completion of the rehabilitation of the property.

G. REQUIRED CONTRACTOR QUALIFICATIONS. When a Selected Contractor submits its initial Rehabilitation Proposal for a property to the MCDA for approval, the Selected Contractor shall also provide the MCDA with a list of any and all subcontractors expected to perform rehabilitation work at the property. Any changes to the list of subcontractors performing rehabilitation work at the property shall also be submitted to the MCDA for approval within seven (7) calendar days. All contractors and sub-contractors must have any required licenses or special certifications related to the rehabilitation services, all required workers compensation insurance, liability insurance -and shall comply with other requirements as determined by the MCDA.

The Selected Contractor shall manage and oversee the rehabilitation work performed by all contractors. Each selected Contractor is encouraged to utilize contractors and skilled labor located in the City of Middletown and Orange County to perform the rehabilitation work. Each contractor shall provided evidence that each employee to perform work at the property has adequate training, qualifications, and safety instruction and such evidence shall be approved or disapproved by the MCDA in its sole discretion.

H. WARRANTY OF WORK. The Selected Contractor will be required to provide a one year warranty for all rehabilitation work performed at each property. The Selected Contractor will be required to make repairs to correct any item included in the approved Rehabilitation Contract for a property that is defective and fails to properly work of perform within one year of completion of the Rehabilitation, unless the damage is caused by the Eligible Household's negligence.

I. REHABILITATION COSTS. The selected Contractor shall be responsible for obtaining sufficient funds to pay all Rehabilitation Costs incurred at the property, including costs for contractor profit, overhead and change orders.

Section 3: Property Management during the Holding Period

A. DESCRIPTION. Upon acquisition of a property by the MCDA, the MCDA shall be responsible for the maintenance and security of such property throughout the entire Holding Period. The MCDA's maintenance obligations include keeping the property free of debris, weeds, graffiti, vermin, vagrants, squatters, and other nuisance conditions. In addition, the MCDA shall secure the property to ensure that squatters and the public are unable to enter the property or obtain access to other non-public areas of the property.

B. HOME INSPECTION. The MCDA shall inspect each property at least once a week, or more if required. In the event of a serious nuisance condition at the property, such as vagrants, squatters, or other trespassers at the property, graffiti, significant trash or debris in visible areas, or other health or safety concerns, the MCDA shall respond to such notice and shall diligently work to cure such condition.

Section 4: Sale of Property

- A. Pursuant to the execution of the Rehabilitation Contracts, the MCDA will work in partnership with PathStone, according to the Memorandum of Agreement (MOA) by and between the MCDA and PathStone, to identify and select an eligible family for the purchase of the property. Each family must have completed and received a Homebuyer Education Program Certification from PathStone.
- B. In the case where all eligible families participating in the MHOP have declined to purchase the property from the MCDA, the MCDA may both list and market the property for sale with a local approved Realtor ("Realtor"), including placing the property on the Multiple Listing Service ("MLS"). The total maximum commission payable to both the listing and the buyer's realtor shall not exceed 6% of the sale price.
- C. In the case of the property being sold through a Realtor, the sales price shall be established prior to outreach, marketing and MLS listing. The sale price must be at a level sufficient enough to recover all Project Costs incurred and associated by the MCDA to acquire, hold, rehabilitate and resell the property. In the event the actual approved Project Costs exceed the post-rehabilitation fair market value of the property, the MCDA may approve a sale price that is less than the Project Costs.
- D. The sales price for a property shall not exceed the post rehabilitation fair market appraised value. In the event that the total Project Costs are more than the post rehabilitation fair market value of a property, the MCDA, in its sole and absolute discretion, may use program income to provide subsidies to reduce the sales price to be equal to the fair market value.

The MCDA will establish a sales price of the property based upon the post rehabilitation value as determined by a Certified Residential Appraisal. The sales price shall be set at 80% of the post rehabilitation value as determined through a formal appraisal from a Certified Residential Appraisal.

- E. **ELIGIBLE HOUSEHOLD QUALIFICATIONS.** Properties acquired, rehabilitated and resold pursuant to the MHOP must be purchased by eligible households that, at a minimum:
 - 1. Meet the income guidelines as described above; and
 - 2. Live in the property as their primary and principal place of residency; and
 - 3. Prior to close of escrow for purchase of the property must attend a HUD-certified, 8-hour pre-acquisition home ownership education class through PathStone; and
 - 4. Meet financial requirements of the mortgage lender for down payment, closing costs and cash reserves; and
 - 5. Obtain a low-risk mortgage loan, at a fixed interest rate.

Section 5: Amount of MHOP Assistance

- A. The amount of MHOP assistance that will be offered to each Eligible household will be based on variable amount of sales price reduction based on household income (define levels)
- B. MHOP Assistance Reasonableness Review

The MCDA in consultation with PathStone and the 1st mortgage lender must review the amount of assistance to determine if it is reasonable, using the following checklist:

Affordability – The household will be able to afford ownership

1. The first mortgage amount is reasonable under current lending standards (i.e., the effective front end ratio is not too low (<25%) or too high (>33%);
 2. The MHOP assistance amount is adequate to make homeownership affordable but is not excessive subsidy; and
 3. The buyer downpayment and buyer-paid closing costs are reasonable in relation to buyer funds.
- C. Sustainability – The household will be able to maintain homeownership over the MHOP affordability period, including:
1. The mortgage is fixed rate and long term;
 2. Projected taxes and insurance are reasonable;
 3. Projected utilities costs are reasonable; and
 4. The property contains no physical conditions that can be expected to cause unusual maintenance expenses in the first five years.

Section 6: First Mortgage Qualification

- A. MHOP grant assistance is intended to reduce the sales price of the rehabilitated home, in most cases amount to the difference between the price of the property and what the buyer can afford (as determined by the lender). The terms of the first mortgage, therefore, are critical to determining the amount of assistance, and standards for first mortgages must be imposed for the program.
- B. The MHOP requires that the homebuyers obtain a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages, such as SONYMA, FHA and USDA. The following requirements apply to the first mortgage:
1. Fixed Rate, 30 year amortization period; no balloons
 2. No interest only, negative amortizing or option payment loans
 3. No stated income, no doc or low doc loans
 4. No prepayment penalties
 5. Mortgage insurance – if required by the lender
 6. Front ratio not exceeding 33%
 7. Front end ratio (% of income for housing cost – PITI) not below 25%
 8. Back end ratio (% of income for housing cost plus other debt) not exceeding 43%
 9. Loan To Value cannot exceed 95%
 10. Buyer funds for down payment shall be no less than \$1,500 and must include earnest funds of \$500 minimum toward the purchase, payable to the MCDA

Section 7: Mortgage Covenant Requirements

- A. In accordance with the MHOP guidelines, each Eligible Household shall execute a promissory note, deed of trust, and a regulatory agreement in recordable form restricting ownership, occupancy and resale of the property for a minimum term of 10 years. Any resale of the property within the 10 year recapture period will require the prior approval of the MCDA Board; and if the property is sold within the 10 year recapture period, the balance of the promissory note shall be repaid to the MCDA according to the schedule above.

Section 8: Monitor Affordability Compliance

- A. The MCDA will monitor compliance with the MHOP requirements applicable to each property on an annual basis and each Eligible Household shall cooperate with the MCDA by responding in a prompt, complete, and honest manner to the MCDA's inquiries regarding the ownership and occupancy of the property and permitting the MCDA to periodically inspect the interior and exterior of the property, and otherwise reasonably cooperating with the MCDA's efforts to monitor compliance with the MHOP.

