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COMMONWEALTH OF VIRGINIA

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DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT April 29, 2010

MEMORANDUM

TO: Virginia Neighborhood Stabilization Program Partners

FROM: Denise H. Ambrose, Associate Director *DHA*

SUBJECT: Notice #NSP-05, Policy Changes and Updates

The expanded definitions of the terms “foreclosed” and “abandoned” per the HUD notice of April 10, 2010 and subsequent program guidance allow for the opportunity of short sales under the NSP. A short sale involves a sale of real property in which a lender agrees to accept the proceeds of the sale in satisfaction of an outstanding mortgage loan when the sale amount is less than the amount the borrower owes on the loan. Note that the lender’s acceptance of the offered short sale price may not release the mortgagor from all other obligations. Further explanation can be found at: <http://hudnsphelp.info/media/resources/ImpactOfNewDefinitions.pdf>.

When pursuing a short sale please keep the following items in mind:

- The bank may agree to a short sale if certain criteria are met with the homebuyer, however at the time the bank agrees to the short sale an accepted price is not yet determined. Banks and servicing companies nationwide are slow to respond to offers on short sales due to the complexity of calculating figures and these sales can take four or more months before a bank response is received. While short sales may offer some increased acquisition opportunities, **keep in mind the NSP timeline and do not rely on short sales as the only option for identifying properties.**
- Unlike foreclosures, the home is not yet in an REO asset manager’s hands. The homes have mortgages against them and the banks are much less likely to reduce principal on a loan that may still be productive.
- Tenant protection and URA requirements are in effect under NSP and grantees should ensure acquisitions of foreclosed properties through short sales satisfy those policies.

It is recommended that you contact your Community Representative early in the process should you decide to pursue a short sale to ensure all requirements are being met and the property will be eligible per NSP guidelines. Documentation to clearly demonstrate how a proposed short sale property qualifies under the NSP must be submitted, including an agreement by the lender to the sale terms and evidence that all other qualifiers as established in the April 10, 2010 notice have been met.

Underwriting Guidelines and Subsidies

DHCD has found it necessary to amend the NSP program to correspond with FHA underwriting guidelines and to assist in qualification of prospective homebuyers. Effective immediately the following policy is now in place for all homebuyers purchasing an NSP home.

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Income Level	Subsidy (% x the NSP sales Price)
50% and under AMI	30%
51% - 80% AMI	20%
81% - 120% AMI	* 10%

* Please note the change to the 81%-120 percent AMI category. DHCD will no longer provide down payment assistance, however a subsidy is now provided at all income levels

This new policy also anticipates the down payment requirement of 3.5% on FHA loans. As such, 3.5% of the sales price at all income levels for **all loan products will be forgiven**. This change will make NSP compliant with FHA / VHDA loan products our products. For example:

Example: \$100,000 Sales Price for a client at 50% AMI

Old Policy	Amount	New Policy	Amount
First Trust FHA	70,000	First Trust FHA	70,000
Subsidy	30,000	Subsidy	30,000
Amount Forgiven	0	Amount Forgiven	3,500
Recorded 2 nd	30,000	Recorded 2 nd	26,500
CLTV	100%	CLTV	96.5%

Note the above example does not take into account the funds included in the 2nd Deed of Trust from the DHCD match or the NSP closing costs. Funds from these activities would be added to the 2nd Deed of Trust; policies governing the closing costs and DHCD match remain unchanged.

Again, thank you for participating in the Virginia NSP. Should you have any questions please contact your Community Representative.

cc: Basil Gooden, DHCD
Carmen Buccci, HUD - Richmond