

Good Neighbor Next Door

Gives public servants a path to homeownership

BACKGROUND AND PURPOSE

The Good Neighbor Next Door (GNND) strengthens communities by making homeownership possible for public servants. The program enables affordable homeownership opportunities in neighborhoods designated as “revitalization areas” to full-time law enforcement officers, pre-kindergarten through 12th-grade teachers, firefighters, and emergency medical technicians (EMTs) via a 50 percent discount off the purchase price of the property. HUD designates revitalization areas based on neighborhood household income, homeownership rate, and FHA-insured mortgage foreclosure activity. The program provides discounts on the purchase of HUD-owned homes and qualified GNND buyers seeking an FHA-insured mortgage are eligible for a minimum down payment of \$100 instead of the standard 3.5 percent of the adjusted value of the property, and can include closing costs and prepaid expenses in the FHA-insured mortgage.

To participate, borrowers must verify their employment status, find a HUD-owned single-family property through the HUD Homes database (listed by state), and purchase it through the program within seven days. Eligible properties are HUD real estate owned (REO) single-family, one- to four-unit residential properties acquired as a result of a foreclosure on the underlying FHA-insured mortgage for properties within designated revitalization areas. A limited number of properties are available under this program.

Purchasers are responsible for finding their own financing and paying closing costs and broker fees, if applicable. Purchasers may be qualified for FHA or VA insured loans or various federal programs based on their special status and/or income level. The GNND program can work in conjunction with other home-buying programs provided the purchaser meets all GNND requirements. For example, the FHA Section

PROGRAM NAME	Good Neighbor Next Door Program (GNND)
AGENCY	U.S. Department of Housing and Urban Development
EXPIRATION DATE	Not Applicable
APPLICATIONS	Not Applicable
WEB LINK	http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/gnndabot
CONTACT INFORMATION	Lenders that have questions about the program can contact their local HUD Homeownership Center (HOC) that has a GNND Coordinator. HOCs and their service areas are listed at https://entp.hud.gov/clas/info2.cfm
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	HUD-owned properties in HUD designated “Revitalization Areas”

203(k) mortgage program helps homebuyers buy a home and have enough money to rehabilitate or repair it (repairs must cost more than \$5,000). The cost of the repairs and the mortgage are combined into a single monthly payment. The FHA 203(b) mortgage program can be used to finance the purchase and repairs under \$5,000.

GNND borrowers are required to sign a second mortgage and note for the discount (50 percent) on the purchase of the home. No interest or payments are required as long as the borrower remains in the home for a total of 36 months. After three years, HUD's second mortgage is released provided that the participant has completed and returned the required annual certifications, is not currently under investigation by the Office of Inspector General, and complies with all GNND regulations. The second mortgage will not show up on the title of the property after it is released. Once this is released, the purchaser is free to sell the home and keep the equity and/or appreciation generated by the sale.

BORROWER CRITERIA

Purchasers: The home must be located in a HUD-designated revitalization area and must be owned by HUD. Borrowers must fit one of three criteria:

1. Law enforcement officials can participate if they are employed full-time by a law enforcement agency of the federal government, a state, a unit of general local government, or an Indian Tribal government.
2. Teachers may participate if they are employed as a full-time teacher by a state-accredited public school or private school that provides direct services to students in pre-kindergarten through grade 12 from the area where the teacher purchases the home.
3. Firefighters and emergency medical technicians may participate if they are employed full-time as a firefighter or EMT by a fire department or emergency medical services responder unit of the federal government, a state, unit of general local government, or an Indian tribal government serving the area where the home is located.

Income limits: This program has no income limits.

Credit: Borrowers applying for FHA-insured mortgages must meet FHA's minimum credit score requirements. If the borrower's minimum decision credit score is above 580, they are eligible for maximum financing. If the credit score is between 500 and 579, the borrower is limited to a maximum loan to value of 90 percent.

First-time homebuyers: The borrower does not have to be a first-time homebuyer to participate.

Special populations: Full-time law enforcement officers, firefighters, teachers, and EMTs purchasing a HUD-owned home in a designated revitalization area for use as their sole residence.

POTENTIAL BENEFITS

There are no income or credit requirements as long as the purchaser meets the employment qualifications, widening the pool of potential applicants.

Since the Good Neighbor Next Door is not a mortgage program, non FHA-approved lenders can finance the mortgage for the property if the borrower meets conventional loan requirements. Lenders are making the equivalent of a 50 percent LTV loan.

POTENTIAL CHALLENGES

The potential market for this program is limited because of the restrictions on both property type and applicant employment.

Foreclosed homes may have quality issues, in which case lenders should be familiar with renovation loan programs to correct deficiencies.

Occupancy and ownership of other properties:

Borrowers may not own any other residential property at the time they submit the offer to purchase a home and for one year previous to the date. The program can be used to purchase a single-unit home, townhouse, or condominium.

LOAN CRITERIA

Loan limits: FHA mortgage limits vary by the number of units and by the county or Metropolitan Statistical Area in which the property resides. HUD issues a Mortgagee Letter announcing the new mortgage limits every year.

Loan-to-value limits: If financing the purchase with an FHA-insured mortgage, maximum LTV is based on the borrower's credit score. If the borrower's minimum decision credit score is above 580, they are eligible for maximum financing. If the credit score is between 500 and 579, the borrower is limited to a maximum LTV of 90 percent.

Down payment sources: Borrowers must arrange the financing, closing costs, and fees on their own. If financing the purchase with an FHA-insured mortgage, FHA allows for various acceptable sources of funds to cover down payment costs. The acceptable sources fall into six categories, including cash and savings/checking account funds; investment funds; gifts; funds resulting from the sale of personal or real property; loans and grants; and employer assistance.

Homeownership counseling: Counseling is not a requirement of the program, but HUD Homeownership Centers have GNND program coordinators who can help purchasers with the process.

Mortgage insurance: If financing the purchase with an FHA-insured mortgage, the mandatory note and second mortgage are not included in the upfront and annual mortgage insurance premium (MIP) associated with the purchase of a GNND property. The upfront and annual MIP should be based on the average outstanding principal obligation of the first mortgage.

Debt-to-income ratio: If financing the purchase with an FHA-insured mortgage, HUD requires lenders to calculate two ratios to determine if a borrower can reasonably meet the expected expenses. First, the mortgage payment expense-to-effective income ratio (or front-end DTI) should not exceed 31 percent.

Second, the total fixed payment-to-effective income ratio (or back-end DTI) should not exceed 43 percent. Ratios that exceed 31 percent or 43 percent may be acceptable if the lender documents qualified "significant compensating factors." In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then FHA would add \$400 to the DTI calculation.

Temporary interest rate buy downs: If financing the purchase with an FHA-insured mortgage, temporary interest buy downs are permitted.

Potential Benefits

- There are no income or credit requirements as long as the purchaser meets the employment qualifications, widening the pool of potential applicants.
- Since GNND is not a mortgage program, non FHA-approved lenders can finance the mortgage for the GNND property if the borrower meets conventional loan requirements. Lenders are making the equivalent of a 50 percent LTV loan.
- GNND may allow community banks to expand their customer base in low- and moderate-income communities.
- GNND offers competitive pricing and terms.
- Lenders are not responsible for monitoring or servicing HUD's second mortgage. The National Servicing Center in Tulsa monitors the servicing of the GNND second mortgage after closing and files the release with the county recorder after successful completion of the three-year residence requirement.

Potential Challenges

- The potential market for this program is limited because of the restrictions on both property type and applicant employment.
- Foreclosed homes may have quality issues, in which case lenders should be familiar with renovation loan programs to correct deficiencies.

RESOURCES

General information

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/gnndabot

GNND-eligible participants

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/particip

HUD Handbook 4000.1

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

- See section II.A.8.o for GNND program information
- See section II.A. 2.b.i for general FHA credit requirements.

HUD Mortgagee Letter 2013-20 (clarification about program MIP payments; includes sample note and second mortgage)

<http://portal.hud.gov/hudportal/documents/huddoc?id=13-20ml.pdf>

HUD Homeownership Center (HOC) contacts and service areas

<https://entp.hud.gov/clas/info2.cfm>

HUD homes database (updated daily)

<http://www.hudhomestore.com/home/index.aspx>