CHAPTER 17

HOMEBUYER ASSISTANCE

Introduction

This chapter discusses the implementation of CDBG homebuyer assistance programs. Such programs may assist income-eligible homebuyers (program participants) to purchase new or existing homes, and may include any necessary rehabilitation. A new home is defined as a unit, which at the time of application/sales contract has a foundation in place.

By next year we plan to replace the CDBG sample Homeownership Program Guidelines and Review Checklist with a Generic Homeownership Program Guidelines and Checklist. The new Checklist will resolve many differing program policies that have arisen between the State CDBG, State Home and CalHome homeownership programs. The goal is to simplify and standardize policies among the programs to make the programs more user friendly.

Grantee Responsibilities

You are responsible for meeting all the terms of your contract including complying with applicable environmental, lead-based paint, and labor standards requirements, relocation laws, procurement, and preparing program guidelines (see Chapter 2 for contract requirements).

NEPA Review: For programs, which include acquisition and rehabilitation, the NEPA review must be completed for each activity. Please refer to Chapter 3 for environmental review requirements for these activities.

Relocation is also a major issue with this type of program. If tenant occupied units are assisted, such that the tenants are displaced, then grantee is responsible for documenting that all displaced tenants are relocated an receive the proper benefits (which is normally very costly). Because of the high cost and extensive time involved in relocation, most programs exclude the use of tenant occupied houses unless the tenant is buying the unit they currently occupy, in which case there is no displacement.

Program Guidelines

Your CDBG contract requires that you prepare program guidelines governing your homebuyer assistance program. You will find sample guidelines attached to this chapter. We have also attached the checklist that your CDBG representative will use to review your program guidelines for compliance with CDBG requirements. If you plan to incorporate rehabilitation into your homebuyer program please consult the housing rehabilitation

chapter of this manual and include appropriate provisions in your guidelines such that it meets the rehabilitation guideline checklist in Chapter 16.

As part of designing your program, the grantee must determine the subsidy amount needed to assist local homebuyers. As such, an analysis of local real estate prices must be done to find out the cost for a modest home. That cost is then compared to the typical mortgage which a family of 3 or 4 can afford, which earn 60% to 80% of county median income and pay out 30% to 37% of that gross income for a monthly mortgage payment (principle, interest, taxes, and insurance). The difference between the typical mortgage families can pay subtracted from the cost of a modest home is the "gap" financing which will be required as subsidy. It is in the grantees interest to allow for enough subsidy or gap financing such that a "typical" low-income family can use the program to purchase a "modest" house. At the same time, the guidelines must allow for special exceptions such that very low-income families can also participate if they meet the basic eligibility requirements of the program.

Homebuyer File Contents

Please refer to Chapter 12, Monitoring Checklist for Acquisition, for a list of the required contents of homebuyer files.

Income Verification

Please refer to Appendix A in the guidelines for information on verifying and documenting program participant income. CDBG funds will normally be used as subordinate gap financing behind a primary loan from a financial institution. The financial institution will verify the homebuyers' income for their loan, but the CDBG program operator must independently use the financial institutions third party verifications to calculate the participant's income eligibility and to underwrite the second mortgage to determine subsidy.

Lead-Based Paint

- Program participants purchasing homes constructed prior to January 1, 1978 must be provided with the proper disclosure notification concerning lead-based paint (LBP) hazards. Additionally, the dwelling must be inspected, treated and cleared of any LBP hazards.

- Whenever pre-1978 houses are acquired or rehabilitated under CDBG, please refer to Chapter 20, Lead-Based Paint Requirements for guidance. The costs associated with meeting these requirements are eligible to be paid for with CDBG funds, and should be considered during program design.

CDBG Guidelines Checklist	Please refer to the attached CDBG Checklist for Homebuyer Assistance Program Guidelines, which your CDBG Representative will use to review your program guidelines.
Sample Guidelines	We have attached a sample Homebuyer Assistance Program Guidelines. Your CDBG subsidy amounts, loan terms, and other eligibility items may vary from the sample. Attached to these guidelines you will find: • Household Income Determination Instructions • Sample Loan Servicing Policies • Sample Acquisition Notice to Seller (Declaration) • Sample Implementation Steps
Persons on Title	CDBG program policy will allow non-TIG persons who do not reside on the property on title providing the following criteria are met: • Adequate mechanisms are developed and in place to ensure that the loan is due and payable, or converted to a market rate loan or rented under a recorded rent limitation agreement when the income eligible owner is no longer occupying the unit; • a mechanism is developed to monitor the unit at least biennially to identify any change in occupancy and/or use; and • language describing the policy and the mechanisms are included in the program guidelines.
Supporting Materials	• Homebuyer Assistance Program - CDBG Guidelines Checklist • Homebuyer Assistance Program - Sample Guidelines

HOMEBUYER ASSISTANCE PROGRAM - CDBG GUIDELINES CHECKLIST

Jurisdiction: _____ Contract No.: _____

Provisions in Guidelines	Page No.
1. Current Income limits by household size	
2. Maximum amount of CDBG assistance per unit, including description of process for ensuring permanent financing from primary lenders	
3. Purchase price limits of the property at acquisition **(OPTIONAL)**	
4. Requirement that properties comply with local code standards at time of purchase or for units being rehabilitated, within six months of purchase	
5. Requirement that acquisition notice containing the items listed below be provided to seller prior to making the purchase offer: a. The purchaser has no power of eminent domain and, therefore, will not acquire the property if negotiations fail to result in an amicable agreement; 1. An estimate of the fair market value of the property; 2. That unit is owner occupied **or** purchased by existing tenant **or** vacant; and If an acquisition notice will not be provided prior to the purchase offer, a provision that the seller may withdraw from the agreement after this information is provided.	
6. A statement that tenant-occupied properties will not be eligible **or** include relocation plan which will describe how permanently displaced tenants will be relocated/paid benefits	
7. Financial terms of the CDBG assistance: a. Assistance is specified as grants or loans, or if either can be used, specifies conditions for making grant vs. Loan; b. Specifies interest rate (if any); and c. Specifies term of the assistance (number of years). d. Provision for Grants to deal with Lead Based Paint issues (if necessary)	
8. Income qualification criteria as shown in most recent CDBG grant management manual	
9. Statement describing how households and properties will be selected, in compliance with fair housing regulations and requirements	
10. Statement describing property code inspections and positions responsible for performing them.	
11. Description of method of determining subsidy amount of CDBG assistance provided to a household up to the maximum loan amount as stated in guidelines	
12. Document how program will ensure eligible, very low-income families, can participate	
13. Ensure program is restricted to families who are not currently home owners	
14. Grantees who include Rehabilitation as part of the purchase process will have their guidelines checked against the Housing Rehabilitation guideline checklist in Chapter 16	

_____ _____

Signature indicating approval of State CDBG Representative Date of Approval

CDBGGMM.9/03

City/County of

_____

Community Development Block Grant

Homebuyer Program Guidelines

_____, 20____

CITY/COUNTY OF _____

CDBG HOME BUYER PROGRAM GUIDELINES

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CITY/COUNTY OF _____
HOMEBUYER PROGRAM GUIDELINES

The **City/County** of _____homebuyer program is designed to provide deferred payment "silent" second mortgages to eligible families for assistance in purchasing an eligible house. The program can be used on any newly constructed or older existing housing units within the **(incorporated city limits or unincorporated county limits (Target Areas)).** Second mortgages are available for "Gap" financing and closing cost assistance to facilitate purchase of affordable units.

1.0 APPLICANT ELIGIBILITY

1.1. Definition of Income Limits

All participants under the **City/County's** program will have their household income documented. Income documentation will certify that they meet the definition of a low -income family as defined by the income limits published annually by HUD for use in its Section 8 program. The income limits in place at the time of loan approval will apply when determining applicant income eligibility. All applicants must have incomes at or below 80% of local median income, adjusted for family size, as defined by HUD each year. **See Attachment A for current chart of income limits as adjusted for housing size.**

1.2. Determining the Income of Homebuyer

Projected annual gross income of the household will be used to determine whether or not a participant is above or below the published HUD income limits. Community Development Block Grant (CDBG) income determination guidelines will be followed to certify the family's annual gross income. All members of borrowers and co-borrowers families who are over 18 and living in the house must provide documentation of income as per the most recent CDBG grant management manuals income determination process. Persons who are co-borrowers, will not be required to submit income and their income and that of their family will not be included in the final income determination but such units must be certified for owner occupancy on an annual basis.

Income will be documented by reviewing tax returns, copies of wage receipts, subsidy checks or bank statements and third party verification of employment forms sent to employers. Incomes, according to CDBG grant management manual, projected to be received by family members over the next 12 months is taken into account to determine eligibility and the program operator completes this income certification. All documentation will be kept in the participant file and held in strict confidence.

1.3. Definition of an Eligible Homebuyer

An eligible homebuyer means an individual or individuals or an individual and his or her spouse who are not currently on title to real property. Persons may be on title of a mobile home unit, which are planning to sell the unit as part of buying a home on real property. Documentation of homebuyer

status will be required for all borrowers. It does not apply to co-borrowers on the loan who will not be living in the house.

1.4. Selection/Prioritization of Participants & Selection of Properties

The **City/County** shall process applications on a first come first serve basis. Priority can be given to residents who live or work in **City/county**. If a large number of responses are received, a list of eligible applicants will be compiled. If a group of persons are all qualified at the same time then they will be placed on a list and entered in a lottery for homebuyer slots. A number will be chosen at random for each of the homebuyers. The applications will be processed according to the number assigned. The family below them on the list will replace any of the first applicants who drop out of the program.

All outreach efforts will be done under an affirmative fair housing marketing plan. Spanish and English flyers will be distributed to local residents and **City/County** social service agencies. The **City/County** may sponsor homebuyer to help educate families about the home buying process and future responsibilities. Persons who have participated in local homebuyer seminars will be notified about the program. Local real estate agents and mortgage loan processors will also be encouraged to have their customers participate in the program.

The property selection process will be market driven. Participants will have their lenders submit a full mortgage package to the **City/County** including first mortgage loan package and property sales contract. The sales contract will be contingent on the family and property meeting **City/County** CDBG guidelines and receiving CDBG loan approval. As such, the program is open and any eligible family may work with a local Realtor to find a suitable house. The administrative subcontractor will confirm that the property is within the incorporated area of the **City/County**. **City/County** staff will review all properties to ensure they meet all CDBG criteria before funding.

Only properties, which are owner-occupied or vacant or a renter buying the units they live in will qualify. No relocation activities will take place because of this program.

1.5. Qualification for First Mortgage and Documentation of Down Payment

All applicants must be pre-approved for a first mortgage and document that they require the **City/County**'s financial assistance to become homeowners. The mortgage loan officer will provide the necessary documents to show that the unit to be purchased is affordable and that the family has used all their income resources to meet the requirements of the first mortgage lender.

Eligible families must document that they have the funds necessary for down payment and closing costs as required under the participating first mortgage lender they are approved for. The **City/County** will require all buyers to provide a minimum of three percent for down payment and the **City/County** will allow gift funds or sweat equity to be used. This down payment requirement is in place even if the first lender has lower down payment requirements. The gap financing may be expanded to include payment of non-recurring closing costs (one time fees associated with the transaction) for families who do not have cash reserves after close of escrow. The program operator will determine the level of subsidy and affordability during underwriting of the **City/County**'s

second mortgage. Only fixed rate first mortgages with impounds for taxes and insurance will be allowed under the program.

1.6. Credit and Education

All program participants will be encouraged to attend a homebuyer education class. The **City/County** will review the participants credit history, including rent payments. Any negative credit items must be explained and justified. If a family has a poor credit history, the **City/County** may require them to attend credit and budgeting seminar and or mortgage default seminar.

1.7. Conflict of Interest Requirements

In accordance with title 24, Section 570.611 of the Code of Federal Regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the program shall directly or indirectly be eligible for this program. Exceptions to this policy can be made only after public disclosure and formal approval by the governing body of the locality.

2.0. **PROPERTY ELIGIBILITY**

2.1 Location and Unit Characteristics

Any home within the **(incorporated City limits or unincorporated area of county (or target areas))** of the **City/County** will be considered. Properties eligible for the homebuyer program must be: single-family detached housing, condominiums, and replacement of existing mobile home on single family lot with new factory built house placed on permanent foundation. Units must be in compliance with local zoning ordinances, etc. Those units located in a flood zone will be required to provide proof of flood insurance at close of escrow.

2.2. Tenancy of Eligible Properties

Because of relocation issues, no occupied rental properties will be eligible under the program. If a tenant is currently occupying a property and wishes to purchase it for their primary residence, then it can be eligible. All owner occupied properties will be eligible for the program. Vacant units will only be considered if documentation is supplied proving that the unit has not been occupied for up to 120 days before initial contact of the seller. Eligible buyers must occupy all assisted units as their principle residence for the life of the loan. Original borrowers must occupy all assisted units as their principle residence for the life of the loan. The program may allow for co-borrowers who do not live in the assisted property but for such units, the owner occupant will be required to provide proof of occupancy every year.

2.3. Condition of Units

Eligible housing units must not have code-related deficiencies at time of occupancy or must be clear

of any deficiencies within six months of close of escrow. Housing inspections of each property, including lead based paint inspections, will be conducted prior to commitment of CDBG funds. Any units, which are required to have repairs done, will be re-inspected before close of escrow to ensure that all repairs have been completed. CDBG funds will not be used to assist a family if doing so will create over crowding conditions. Priority will be given to units constructed after 1978 to avoid lead base paint abatement costs and lengthy complications.

If a property is eligible for the program and was built prior to 1978, then the buyer will receive and sign a notice of lead base paint disclosure. A certified lead base paint inspector will be used to evaluate the unit and ensure that all federal lead base paint procedures, including any abatement, are followed. Any requirement for lead base paint testing and/or required abatement must be completed prior to investment of CDBG funds.

a. Lead Hazard Reduction Inspection and Correction

Occupants of units constructed prior to 1978 will receive proper notification of Lead-Base Paint (LBP) hazards and all projects will be subject to implementation of the Federal Lead Based Paint Regulations by the California Department of Housing and Community Development (HCD) in accordance with the most recently published CDBG grant management manual chapter on Lead Paint.

2.5. Proper Notification and Disclosures

Upon selection of a property, a qualified seller and buyer must be given the necessary disclosures for the program. The borrower must have read and signed all program disclosure forms. Any and all property disclosures must be reviewed and signed by the buyer and seller. **(See Attachment C for Sample disclosures.)**

All property owners who wish to sell their properties must receive an acquisition notice prior to submission of the buyer's original offer. This notice will be included in the contract and must be signed by all owners on title. The disclosure must contain:

1. that the purchaser is receiving CDBG funds from the **City/County** as part of the transaction, the buyer has no power of eminent domain and therefore, will not acquire the property if negotiations fail to result in an amicable agreement; and

2. an estimate of the fair market value of the property. The buyer's agent based on their knowledge of local real estate market may make this estimate.

If such notice is not given to seller prior to the purchase offer, then this will be attached as a rider to the purchase agreement after the fair market value is provided and the seller has the ability to cancel the sales transaction based on the information disclosed.

Seller must also sign a notice, which acknowledges that they will allow for an inspection of the unit to ensure that the program inspector has an opportunity to inspect for health and safety deficiencies and for lead hazards.

For homes built before 1978, the owner will also sign a notice, which confirms or denies any knowledge of lead hazards on the property.

3.0. LOAN TERMS CDBG SECOND MORTGAGE

3.1. Loan Amount

Maximum Loan Amount for second mortgages available to eligible homebuyers will be _____ (Example $45,000). Leverage funds may be employed to cover mortgage subsidy costs that exceed this maximum funding amount. All families being assisted with CDBG funds must obtain a first mortgage within the affordability parameters of these guidelines.

The Second Mortgage gap financing may include: amount of funds which, when combined with the first mortgage and down payment, will enable the family to purchase the house. On a case-by-case basis, non-recurring closing costs for up to three percent (3%) of the purchase price may be included in the CDBG loan. Non-recurring costs such as credit report; escrow, closing and recording fees; and title report and title insurance, title updates and/or related costs may be paid.

For those families that are eligible for the program but are very low income, such that the gap financing listed about is not sufficient, the City/County may provide an additional _____ (Example $20,000) in financing to assist them in purchasing a home. This additional subsidy will ensure that very low income families are not excluded from the program.

Grants for Lead Hazard Evaluation and Reduction Activities.

Grants of up to $7,500 will be provided for the cost of lead hazard evaluation and reduction activities. Eligible costs under the grant are limited to the additional cost of paint stabilization above the cost of any normal paint repairs. Grants will only be available when proposed paint stabilization measures do not add value to the house.

3.3. Rates and Terms for Second Mortgage

The second mortgage will be financed as a three percent (3%) interest 30 year deferred payment loan. The interest on the second mortgage will, starting at year twenty of the loan, be decreased by 10% per year until all interest is fully forgiven at year 30 and only the principle remains as due and payable. This will encourage homebuyers to use the unit as their primary residence for as long as possible.

Loans are due upon sale or transfer of title or when borrower no longer occupies the home as his/her principal residence. The loan will be in default if the borrower fails to maintain required fire or flood insurance, fails to pay property taxes. See Attachment B on loan defaults for further information on property restrictions.

3.4. Loan Security and Underwriting Standards

Deeds of Trust and Promissory Notes will secure both the first mortgage and second mortgage. A combination of the first mortgage and the amount of gap financing should not exceed 100% of the value of the property. The **City/County** may consider assisting a family where the property is over encumbered, if the first lender is in agreement and proper compensating factors are documented. Value will be determined by an appraisal based on the current market value of similar property in the area.

At time of closing escrow, all participants must have sufficient fire insurance (and flood insurance, if required by location in a flood plain) to cover all encumbrances. All families will be required to have impound accounts for insurance and taxes to ensure they will stay current. All persons listed on the title to the property must sign the Promissory Note and Deed of Trust, and affordability agreements.

4.0. LOAN REPAYMENT

All loans will be initially deferred because the borrowers will have their repayment ability fully utilized under the first mortgage. Families may begin making voluntary monthly payments at any time, upon notification and approval of the **City/County**.

4.1. Receiving Loan Repayments

Loan payments will be made to:

CITY/COUNTY OF _____

_____

City, CA 95_____

The **City/County** will be the receiver of loan payments or recapture funds. The **City/County** will maintain a financial record-keeping system to record payments and file statements on payment status. The **City/County** will accept loan payments from borrowers prepaying deferred loans, and from borrowers making payments in full upon sale of the property or change in title. All loan payments are payable to the **City/County**/County of _____. The **City/County** may at its discretion, contract with a firm to complete all loan servicing aspects of the program.

4.2. Loan Servicing Policies and Procedures

See Attachment B for local loan servicing policies and procedures. While the attached policy outlines a system that can accommodate a crisis that restricts borrower repayment ability, it should in no way be misunderstood: The loan must be repaid. All legal means to ensure the repayment of a delinquent loan as outlined in the Loan Servicing Policies and Procedures will be pursued.

5.0. LOAN PROCESSING AND APPROVAL PROCESS

5.1. Initial Application and Underwriting

All interested participants or their representatives will be sent out an eligibility packet with all the necessary forms, disclosures, information, and application. They must submit a complete application

packet with all the **City/County**'s program documents executed as well as all the information from the first mortgage lender. The first lender must submit: 1) accepted property sales contract with proper seller notification; 2) mortgage application with good faith estimates and first mortgage disclosures; 3) full mortgage credit report and rent verification; 4) current third party income verifications and verifications of assets; 5) home ownership education certificate, if applicable. Staff will work with local lenders to ensure qualified participants receive only the benefit from the **City/County**'s program needed to purchase the unit and that leveraged funds will be used when possible, for example in many cases the first mortgage lender will not require mortgage insurance with the **City/County**'s second in place which will save on the family's monthly payment.

5.2. Homebuyer Underwriting and Determination of Subsidy Amount

After initial review of the qualified homebuyer's application packet, the **City/County**'s program administrative will request any additional documents needed. Documents may be faxed but originals must be received through the mail before CDBG funds are committed to escrow. Based on receipt and review of the final documents, the administrator will do an income certification (using most recent CDBG grant management manuals guidance on income calculation and determination), and homebuyer certification (review of credit report and income taxes). Documentation of affordability will then be verified and subsidy requirement determined.

The **City/County**'s application and disclosure forms will contain a summary of the loan qualifications of the borrower with and without CDBG assistance. Housing ratios with and without CDBG assistance will also be outlined. Information on the **City/County**'s application will be documented with third party verifications in the file. For example, the sales contact will provide the final purchase price and outline how much of the closing costs are to be paid by the seller, etc. The appraisal, termite and title report will provide information to substantiate the information in the sales contract and guide the construction inspection. The mortgage loan application will provide current debt and housing information and will be documented by the credit report and income/asset verifications. The first lender approval letter and estimated closing cost statement should reflect all the information in the mortgage package and show any contingencies of loan funding. Reviewing first mortgage loan underwriting documentation will provide basic information about the qualification of the applicant and substantiate the affordability provided by the **City/County** CDBG loan. By reviewing and crossing checking all the lender information, the final CDBG loan amount approved will fall within the affordability parameters of the program.

5.3. Affordability Parameters for Buyers

The maximum housing cost ratio for the family will not exceed the maximum allowable rate under the first mortgage lender or a maximum of thirty seven percent (37%) which ever is less. A minimum housing ratio under the program will be thirty five percent (35%) or the maximum housing ratio under the first lender, which ever is less. The family's combined gross monthly income and estimated housing cost (principle, interest, taxes, insurance, and homeowner's association dues or bond payments, etc.) will be used to calculate this ratio when using CDBG funds.

By limiting the CDBG loan subsidies to housing ratio parameters listed above, the **City/County** will be assured that each borrower is receiving only the subsidy needed to allow them to become home

owners and keep their housing costs affordable.

5.4. Construction Inspection and Determining Need for Repairs

The program administrator will work closely with local Realtors to explain the program requirements for eligible properties. Once the subcontractor has underwritten an eligible participant, the subcontractor's construction inspector will walk through the property and identify any code violations, which need to be corrected. A list of code related repair items will be given to the buyer and their Realtor to be negotiated with the seller.

If the house is pre-1978 then the buyer will receive and sign a lead base paint disclosure. A certified lead base paint inspector will inspect for defective paint surfaces. If defective paint surfaces are found, a specific cost estimate for lead base paint stabilization by a certified contractor will be included in the list of correction items given to the buyer and seller. Grant funds can be used to pay for these activities.

The **City/County** will require a clear pest inspection report with each unit. Smoke detectors will be installed if there are none in place. Any zoning violations will need to be removed before close of escrow. The **City/County** will encourage each buyer to secure a home owner's warranty policy as part of the purchase of a resale property.

Upon completion of all work required by the construction inspector, a final inspection will be conducted prior to close of escrow. The inspector will review the unit and sign off on all construction work assuring that each unit receiving CDBG assistance is in compliance with local codes at the time of purchase.

5.5. Completion of Underwriting and Approval of Second Loan

Once all the income and property eligibility items have been resolved, the subcontractor will submit a request for loan approval to the **City/County**. **City/County** staff will review the request and may approve it with or without conditions. Upon approval, a final closing date for escrow is set and CDBG funds are accessed for the buyer.

The local lender carries out first mortgage loan packaging after the property and program participant have been qualified and the project is determined to be feasible. The subcontractor is responsible for preparing all necessary second mortgage loan documents for escrow closing.

5.6. First and Second Mortgage Document Signing

A complete a loan package is produced containing the first and second mortgage documents. The package will: detail participant income eligibility and repayment ability; document the total amount of the CDBG loan and the total amount of the first mortgage; list the break down of loan costs; includes final home inspection sign off; and any other information particular to the case. (All private financing commitments must be in place prior to consideration by **City/County** staff.) The homebuyer(s) sign both promissory notes and deeds of trust and other statutory lending notices (right of rescission, truth in lending, etc.); the deeds are recorded with the County Clerk/Recorder at the same time.

6.0. **EXCEPTIONS/SPECIAL CIRCUMSTANCES**

Exceptions are defined as any action, which would depart from policy and procedures stated in the guidelines.

6.1. Procedure for Exceptional/Special Circumstances

The **City/County** or its agent may initiate consideration of an exceptional/special circumstance. A report on the situation will be prepared. This report shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant.

The **City/County** staff shall make a determination of the exceptional/special circumstances request based on the recommendation of the subcontractor. The request can be presented to the state CDBG Program Representative for a decision.

7.0. **DISPUTE RESOLUTION/APPEALS PROCEDURE**

Any person/family applying for the homebuyer program has the right to appeal if their application is denied. The appeal must be made in writing. **City/County** staff has 30 days to review the appeal, seek recommendations from the loan committee, and respond in writing to the participant.

8.0. **ANTI-DISPLACEMENT POLICY AND RELOCATION ASSISTANCE**

This program deals with only vacant or owner occupied units and will not displace any persons.

Attachment A

HUD 2003 Income Limits
Adjusted for Family Size
_____ COUNTY

Number of Persons in Family								
Standard	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
80% of AMI	25,400	29,050	32,700	36,300	39,250	42,150	45,050	47,950

*Sponsor will update the income limits annually as HUD provides new information. The link to the official, HCD-maintained, income limits is: **http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html**

Income Calculation

Current gross income of all persons over 18 years of age living in the household will be used to project the anticipated income for the household over the next 12 months. This is in accordance with Section 8 income determination regulation 24 CFR Part 5, Subpart F of Part 5 consolidated the requirements pertaining to income for many of HUD's programs, including Section 8 and the Community Development Block Grant Program.. The following is a list of income that is included in the calculation of annual income for the Program:

1. All wages and salaries, overtime pay, commissions, fees, tips and bonuses, and any other compensation for personal services (before any payroll deductions);

2. Net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness cannot be used as deductions in determining net income; however, an allowance for depreciation of assets used in a business or profession may be deducted in accordance with IRS regulations. Any withdrawal of cash or assets from the business or profession is included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the household;

3. Interest, dividends, and other net income of any kind from real or personal property. Where the household has Net Family Assets (excluding the value of the family's home) in excess of $5,000, annual income includes the greater of the actual income derived from the Net Family Assets or a percentage of the value of such Assets based on the current passbook savings rate, as determined by HUD;

4. All gross periodic payments received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts;

5. Payments in lieu of earnings, such as unemployment, worker's compensation and severance pay, excluding however, lump sum payments under health and accident insurance such as workers' compensation;

6. Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts from any person not residing in the dwelling;

7. All regular pay, special pay, and allowances of a member of the Armed Forces who is head of the household, whether or not he or she is living in the dwelling; and

8. All payments made to, or in benefit of, any member of the household, under the provisions of the Economic Opportunity Act or any other anti-poverty program.

The following are excluded from income calculations under the Program:

1. Income from employment of children under the age of 18 years;

2. Payments received for the care of foster children;

3. Lump sum additions to Family Assets, such as inheritances, insurance payments including payments under health and accident insurance and workers' compensation, capital gains and settlements of personal property losses (but see #5 under the listing of income inclusions above);

4. Amounts received that are specifically for, or in reimbursement of, the cost of medical expenses of any household member;

5. Income of a live-in aide;

6. Amounts of educational scholarships paid directly to the student or school, and amounts paid by the Government to a veteran, for use in meeting the costs of tuition, fees, books, etc. of the student. Any amounts received that are not used for these purposes are to be included as income;

7. The special pay for a household member serving in the Armed Forces who is exposed to hostile fire;

8. Amounts received under HUD-funded training programs or received under a public assistance program that are specifically for out-of-pocket costs made solely to allow participation in a specific program;

i) Temporary, nonrecurring, or sporadic income; and

j) Lump sum payments of SSI and Social Security benefits, the value of the allotment provided under the Food Stamp Act of 1977.

Attachment B
LOAN SERVICING POLICIES AND PROCEDURES FOR THE CITY/ COUNTY OF _____

The City/County of _____, here after called "Lender" has adopted these policies and procedures in order to preserve its financial interest in properties, who's "Borrowers" have been assisted with public funds. The Lender will to the greatest extent possible follow these policies and procedures but each loan will be evaluated and handled on a case-by-case basis. The Lender has formulated this document to comply with state and federal regulations regarding the use of these public funds and any property restrictions, which are associated with them.

The policies and procedures are broken down into the follow areas: 1) making required monthly payments or voluntary payments on a loan's principle and interest; 2) required payment of property taxes and insurance; 3) required Request for Notice of Default on all second mortgages; 4) required Rent Limitation Agreement and monitoring of investor properties; 5) loans with annual occupancy restrictions and certifications 6) required noticing and limitations on any changes in title or use of property; 7) required noticing and process for requesting a subordination during a refinance; 8) process of foreclosure in case of default on the loan.

1. Loan Repayments:

The Lender will collect monthly payments from those borrowers who are obligated to do so under an Installment Note, which are amortized promissory notes, (or Lender will use _____ loan collection company to collect payments). Late fees will be charged for payments received after the assigned monthly date.

For Straight Notes, which are deferred payment loans; the Lender may accept voluntary payments on the loan. Loan payments will be credited to the interest first and then to principal. The borrower may repay the loan balance at any time with no penalty.

2. Payment of Property Taxes and Insurance:

As part of keeping the loan from going into default, borrower must maintain property insurance coverage naming the Lender as loss payee in first position or additional insured if the loan is a second mortgage. If borrower fails to maintain the necessary insurance, the Lender may take out forced place insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of Borrower's new insurance.

When a property is located in a 100 year flood plain, the Borrower will be required to carry the necessary flood insurance. A certificate of insurance for flood and for standard property insurance will be required at close of escrow. The lender may check the insurance on an annual basis.

Property taxes must be kept current during the term of the loan. If the Borrower fails to maintain payment of property taxes then the lender may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan. Wherever possible, the Lender encourages Borrower to have impound accounts set up with their first mortgagee wherein they pay their taxes and insurance as part of their monthly mortgage payment.

3. Required Request for Notice of Default:

When the Borrower's loan is in second position behind an existing first mortgage, it is the Lender's policy to prepare and record a "Request for Notice of Default" for each senior lien in front of Lender's loan. This document requires any senior lien holder listed in the notice to notify the lender of initiation of a foreclosure action. The Lender will then have time to contact the Borrower and assist them in bringing the first loan current. The Lender can also monitor the foreclosure process and go through the necessary analysis to determine if the loan can be made whole or preserved. When the Lender is in a third position and receives notification of foreclosure from only one senior lien holder, it is in their best interest to contact any other senior lien holders regarding the status of their loans.

4. Required Rent Limitation Agreement for Investor Properties:

All owner investor properties which receive loans from the Lender will be required to enter into a rent limitation agreement which restricts the tenants and the rents on the property for a fixed period of time, depending on the public funds used. The rent limitation agreement will be recorded on title of the property and non-compliance with this agreement can lead to foreclosure action by the Lender. The rent limitation agreement will be monitored annually to ensure that low or very low-income households occupy the assisted investor units and that the rents charged to those households is affordable. In some cases the units must be inspected annually to ensure that they are up to minimum health and safety standards. At the end of the designated affordability period, the Lender will release the Borrower from the rent limitation agreement.

5. Annual Occupancy Restrictions and Certifications:

On some owner occupant loans the Lender may require that Borrowers submit utility bills and/or other documentation annually to prove occupancy during the term of the loan. Other loans may have income and housing cost evaluations, which require a household to document that they are not able to make repayments, typically every five years. These loan terms are incorporated in the original note and deed of trust.

6. Required Noticing and Restrictions on Any Changes of Title or Occupancy:

In all cases where there is a change in title or occupancy or use, the Borrower must notify the Lender in writing of any change. Lender and borrower will work together to ensure the property is kept in compliance with the original program terms and conditions such that it remains available as an affordable home for low income families. These types of changes are typical when Borrowers do estate planning (adding a relative to title) or if a Borrower dies and property is transferred to heirs or when the property is sold or transferred as part of a business transaction. In some cases the Borrower may move and turn the property into a rental unit without notifying the Lender. Changes in title or occupancy must be in keeping with the objective of benefit to the Targeted Income Group (TIG) families.

Change from owner-occupant to owner-occupant occurs at a sale. When a new owner-occupant is not low-income, the loan is not assumable and the loan balance is immediately due and payable. If the new owner-occupant qualifies as low-income, the purchaser may either pay the loan in full or assume all loan repayment obligations of the original owner-occupant, subject to the approval of the Lender's Loan Committee.

If a transfer of the property occurs through inheritance, the heir (as owner-occupant) may be provided the opportunity to assume the loan at an interest rate based on family size and household income, provided the heir is in the TIG. If the heir intends to occupy the property and is non-TIG, the balance of the loan is due and payable. If the heir intends to act as an owner-investor, the balance of the loan may be converted to an owner/investor interest rate and loan term and a rent limitation agreement is signed and recorded on title. All such changes are subject to the review and approval of the Lender's Loan Committee.

Change from owner-occupant to owner-investor occurs when an owner-occupant decides to move out and rent the assisted property, or if the property is sold to an investor. If the owner converts any assisted unit from owner occupied to rental, the loan is due in full. If the Borrower or new owner investor requests that the existing loan be assumed and agrees to the current Lender rates and terms for owner investor properties and the rent limitation agreement, then the outstanding balance may be refinanced, subject to the review and approval of the Lender's Loan Committee.

Conversion to use other than residential use is not allowable where the full use of the property is changed from residential to commercial or other. In some cases, Borrowers may request that the Lender allow for a partial conversion where some of the residence is used for a business but the family still resides in the property. Partial conversions can be allowed if it is reviewed and approved by any and all agencies required by local statute. If the use of the property is converted to a fully non-residential use, the loan balance is due and payable.

7. Requests for Subordinations:

When a Borrower wishes to refinance the property, they must request a subordination request to the Lender. The Lender will only subordinate their loan when there is no "cash out" as part of the refinance. Cash out means there are no additional charges on the transaction above loan and escrow closing fees. There can be no third party debt pay offs or additional encumbrance on the property above traditional refinance transaction costs. Furthermore, the refinance should lower the housing cost of the family with a lower interest rate and the total indebtedness on the property should not exceed the current market value.

Upon receiving the proper documentation from the refinance agency, the request will be considered by the loan committee for review and approval. Upon approval, the escrow company will provide the proper subordination document for execution and recordation by the Lender.

8. Process for Loan Foreclosure:

Upon any condition of loan default: 1) non payment; 2) lack of insurance or property tax payment; 3) violation of rent limitation agreement; 4) change in title or use without approval; 5) default on senior loans, the Lender will send out a letter to the Borrower notifying them of the default situation. If the default situation continues then the Lender may start a formal process of foreclosure.

When a senior lien holder starts a foreclosure process and the Lender is notified via a Request for Notice of Default, the Lender, who is the junior lien holder, may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount, or payoff amount must be obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges and fees to date. Lender must confer with Borrower to determine if, upon paying the senior lien holder current, the Borrower can

provide future payments. If this is the case then the Lender may cure the foreclosure and add the costs to the balance of the loan with a Notice of Additional Advance on the existing note.

If the Lender determines, based on information on the reinstatement amount and status of borrower, that bringing the loan current will not preserve the loan, then staff must determine if it is cost effective to protect their position by paying off the senior lien holder in total and restructure the debt such that the unit is made affordable to the Borrower. If the Lender does not have sufficient funds to pay the senior lien holder in full, then they may choose to cure the senior lien holder and foreclose on the property them selves. As long as there is sufficient value in the property, the Lender can afford to pay for the foreclosure process and pay off the senior lien holder and retain some or all of their investment.

If the Lender decides to reinstate, the senior lien holder will accept the amount to reinstate the loan up until five (5) days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four (4) to six (6) months from the date of recording of the "Notice of Default." If the Lender fails to reinstate the senior lien holder before five (5) days prior to the foreclosure sale date, the senior lien holder would then require a full pay off of the balance, plus costs, to cancel foreclosure. If the Lender determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the Lender's lien may be eliminated due to insufficient sales proceeds.

Lender As Senior Lien holder

When the Lender is first position as a senior lien holder, active collection efforts will begin on any loan that is 31 or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed in an increasingly urgent manner until loan payments have reached 90 days in arrears, at which time the Lender may consider foreclosure. Lender's staff will consider the following factors before initiating foreclosure:

1. Can the loan be cured and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?

2) Can the Borrower refinance with a private lender and pay off the Lender?

3) Can the Borrower sell the property and pay off the Lender?

4) Does the balance warrant foreclosure? (If the balance is under $5,000, the expense to foreclose may not be worth pursuing.)

5) Will the sales price of home "as is" cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?

If the balance is substantial and all of the above factors have been considered, the Lender may opt to initiate foreclosure. The Borrower must receive, by certified mail, a thirty-day notification of foreclosure initiation.

This notification must include the exact amount of funds to be remitted to the Lender to prevent foreclosure (such as, funds to bring a delinquent BMIR current or pay off a DPL).

At the end of thirty days, the Lender should contact a reputable foreclosure service or local title company to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lien holders. The service will advise the Lender of all required documentation to initiate foreclosure (Note and Deed of Trust usually) and funds required from the owner to cancel foreclosure proceedings. The service will keep the Lender informed of the progress of the foreclosure proceedings.

When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the Lender could sell the home themselves under a homebuyer program or use it for an affordable rental property managed by a local housing authority or use it for transitional housing facility or other eligible use. The Lender could contract with a local real estate broker to list and sell the home and use those funds for program income eligible uses.

Attachment C

Sample Program Disclosures

Lead Paint Inspection Disclosure
(to be signed by borrower)

The City/County of _____ home buyer assistance program is funded by public funds from the State HOME Partnerships (HOME) Program or Community Development Block Grant (CDBG) program. This disclosure is provided because under these federally funded programs, Lead Based Paint Inspections and Assessments are required for each house receiving funds.

This addendum is provided to you in order for the lender to be in compliance with federal and state regulations regarding notification and addressing Lead Based Paint in homes, typically those built prior to 1978. Under federal and state regulations all homeowners choosing to participate in the local state or federally funded programs must have their pre-1978 homes inspected and assessed by certified inspectors in lead paint.

The borrower may choose to have _____ or other certified Lead Based Paint consultant perform the inspection and assessment prior to approval of your loan application. _____ will perform this service on your home as part of the services being provided through the HOME and or CDBG program. The fees for this service will be paid from your loan. If your loan is not approved, there will be no charge for this service.

_____**Yes**, I want _____ to conduct the Lead Based Paint Inspection/Assessment.

_____**No,** I do not want _____ to conduct the Lead Based Paint Inspection/Assessment on my home. I will contract this service on my own and will provide RCHC with a copy of the report and billing no later than 30 days from the date of application.

_____ _____

Signature **Date**

_____ _____

Signature **Date**

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NOTICE TO SELLER

(To be completed by Applicant and Seller)

I, _____, am a participant in the City/County of _____ Down Payment Assistance Program for First Time Home Buyers. If I decide to purchase your property at _____, CA, the Program may provide down payment assistance toward its purchase. Since public funds will be used to assist with the purchase of the property, the following information must be provided to the property owner prior to making a purchase offer:

1. The City/County will not use its power of eminent domain to acquire the property if negotiations fail to result in an amicable agreement. The sale of the property is considered a voluntary transaction and as such is not regulated by the Uniform Relocation Act.

2. The estimated fair market value of the property is $ _____ and was estimated by _____ _____.

3. As the Seller, I understand that this Program involves a City Housing Code Inspection for basic health and safety and that most of these items will be repaired as part of the mortgage process.

4. As the Seller, I understand that public funds will be involved in this transaction and as such, all properties built on or before 1978 will require a certified lead paint inspection and testing. If the house is found to contain elevated levels of lead then abatement will be a requirement of the transaction. I understand that cost for abatement will be included in the cost of repairs.

5. As the Seller, I understand that under the city/county's program, property must be currently owner occupied, vacant at time of submission of purchase offer, or renter purchasing the unit.
   I hereby certify that the unit is:
   - ☐ Vacant
   - ☐ Owner occupied
   - ☐ Renter buying unit

   The property meets the above stated criteria so federal and state relocation laws will not be triggered.

PROPERTY OWNER/SELLER

I hereby certify that I have read and understand this "Notice to Seller" and a copy of said Notice was given to me. All information contained in this Notice is true and correct to the best of my knowledge.

Signature: _____ Date: _____

Address: _____

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Attachment D

CITY/ COUNTY OF _____
HOME BUYER ASSISTANCE PROGRAM

IMPLEMENTATION STEPS

A. Participant works with lender of choice to qualify for real estate loan.

B. Participant works with real estate agent to select home. Preference will be given to vacant or owner occupied homes rather then tenant occupied.

C. Participant selects home and enters into a purchase contract. Lender provides (Program Administrator) with a copy of:
- real estate sales contract
- residential loan application
- proof of personal funds for participation in program
- credit report
- verified income documentation
- disclosure statement
- breakdown of closing costs
- structural pest control clearance
- appraisal with photos
- escrow instructions
- preliminary title report

D. (Program Administrator) reviews paper work to determine program eligibility and financing affordability for participant etc.

E. (Program Administrator) staff meets with qualified applicant to provide information relative to the program requirements, the lending process, and home ownership responsibilities.

F. (Program Administrator) has home inspected (if necessary) to meet code compliance. Notice of any deficiencies or needed corrections given to participant's real estate agent, with recommended course of action.

G. (Program Administrator) requests loan approval from City Administrator. Following loan approval, (Program Administrator) prepares Deed of Trust, Promissory Note, Notice of Default, Grant Agreement, Owner Occupant Agreement with City, requests checks and deposits same into escrow.

H. Escrow company furnishes (Program Administrator) with proof of documents to be recorded, and any escrow close out information. After receipt of recorded documents, (Program Administrator) closes out city file.