



**CITY OF ELK GROVE
CITY COUNCIL STAFF REPORT**

AGENDA TITLE: Adopt resolution approving the CalHome Homebuyer Assistance Program guidelines and authorizing staff to implement the Program in accordance with the terms of the guidelines

MEETING DATE: May 28, 2014

PREPARED BY: Sarah Bontrager, Housing Program Manager

DEPARTMENT HEAD: Taro Echiburú, AICP, Planning Director

RECOMMENDED ACTION:

Staff recommends that the City Council adopt a resolution approving the CalHome Homebuyer Assistance Program guidelines and authorizing staff to implement the Program in accordance with the terms of the guidelines.

BACKGROUND INFORMATION:

In 2012, the City was awarded two grants from the California Department of Housing and Community Development (HCD) to offer first-time homebuyer assistance: a \$700,000 HOME award and a \$1,000,000 CalHome award. On December 12, 2012, the City adopted Homebuyer Assistance Program guidelines that covered both the HOME and CalHome programs.

Since the guidelines were adopted, staff has been implementing the program using HOME funds, which expire first. Potential homebuyers using the program have faced several challenges, including an active cash investor market in much of 2013 and restrictions on purchase of tenant-occupied properties and properties with more than three bedrooms.

Additionally, in response to a change in federal regulations, HCD lowered the maximum purchase price for HOME-funded units from approximately \$360,000 to \$199,000. The supply of homes in this price range in Elk Grove is extremely limited. The City filed an exception request to allow for a maximum purchase price better aligned with the current market, but to date has not received a response. Without relief on the purchase price criteria, the City will likely not be able to expend its HOME grant.

ANALYSIS:

While staff originally intended to have one set of guidelines for its Homebuyer Assistance Program to ensure consistency in implementation, this strategy is no longer viable. The CalHome program regulations offer greater flexibility, including:

- Slightly higher income limits;
- A maximum purchase price that is tied to the County's median (about \$245,000 as of March 2014) and updated monthly;
- No limitations on home size; and
- No restrictions on tenant-occupied properties as long as the homes are vacant at the close of escrow.

Highlights of the redesigned program include the following:

- Homeowners earning up to 80 percent of the area median income are eligible for assistance. Homeowners must not have owned a home in the previous three years, must be able to qualify for prime financing, and must attend homebuyer education counseling prior to purchase.
- Participants can purchase homes throughout Elk Grove. Homes must pass certain inspection requirements to make sure they are safe and habitable.
- The maximum loan amount will be \$58,650 for single-family homes, or 20 percent of the purchase price, whichever is less. The actual loan amount will be based on what the household needs to make the home affordable to them, such that they pay approximately 30 percent of their gross income toward housing expenses.

- The interest rate will be 3% simple. Interest begins to be forgiven after 10 years to encourage people to stay in the homes long-term. Principal is never forgiven.
- The homeowner must contribute at least 1% of the purchase price.
- All loans will be secured by a Loan Agreement, Promissory Note, and Deed of Trust.

When loans are repaid, the City retains the funds to make new loans, with the goal of creating a pool of funds to support homeownership opportunities.

ENVIRONMENTAL ANALYSIS:

No environmental analysis is necessary at this time as this action is the approval of Program guidelines and it is not associated with the approval of any specific project at this time. All future projects implemented with final funding awards will be reviewed for compliance with the California Environmental Quality Act (CEQA), if applicable.

FISCAL IMPACT:

The City will receive \$1 million in state funding for the Homebuyer Assistance Program. This funding is expected to fund 17 to 20 loans, and also covers the implementation costs, including staff time, associated with successful loans (subject to certain limits). Administrative funding is limited; however, the City anticipates administering the program using existing staff resources so there will be no significant impact to the General Fund.

ATTACHMENTS:

1. Resolution
2. Homebuyer Assistance Program Guidelines: CalHome Program

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE
APPROVING THE CALHOME HOMEBUYER ASSISTANCE PROGRAM
GUIDELINES AND AUTHORIZING STAFF TO IMPLEMENT THE PROGRAM IN
ACCORDANCE WITH THE TERMS OF THE GUIDELINES**

WHEREAS, the City of Elk Grove has applied for and received award of CalHome Program funds from the California Department of Housing and Community Development (HCD) for the purpose of providing homebuyer assistance to low-income households; and

WHEREAS, in order to receive authorization to expend the funds, the City must submit certain documentation to HCD, including homebuyer assistance program guidelines; and

WHEREAS, staff has drafted guidelines for the Homebuyer Assistance Program that take into account the state regulations of the funding sources.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Elk Grove hereby:

- 1) Approves the Homebuyer Assistance Program guidelines for the CalHome Program; and
- 2) Authorizes staff, as identified in the Homebuyer Assistance Program guidelines, to implement the Program in accordance with the terms of the guidelines.

PASSED AND ADOPTED by the City Council of the City of Elk Grove this 28th day of May 2014

GARY DAVIS, MAYOR of the
CITY OF ELK GROVE

ATTEST:

APPROVED AS TO FORM:

JASON LINDGREN, CITY CLERK

JONATHAN P. HOBBS,
CITY ATTORNEY



City of Elk Grove

Homebuyer Assistance Program Guidelines

CalHome Program

**HOMEBUYER ASSISTANCE PROGRAM GUIDELINES – CALHOME PROGRAM
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1.0 GENERAL

1.1 PROGRAM OVERVIEW

The City of Elk Grove (“City”) has entered or plans to enter into a contractual relationship with the California Department of Housing and Community Development (“HCD”) to administer a CalHome-funded homebuyer assistance program (the “Program”). The Program is designed to provide assistance to eligible homebuyers in purchasing homes (also referred to herein as “housing units”) located within the boundaries of the City. The Program provides gap financing in the form of deferred payment, second-priority loans to be used toward the purchase price and closing costs of affordable housing units that will be occupied by the homebuyers as their primary residence. The Program will be administered by the City of Elk Grove’s Housing Program Manager (the “Housing Program Manager”).

1.2 PROGRAM OUTREACH AND MARKETING

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach, and access to the Program. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender, or sexual orientation be excluded, denied benefits, or subjected to discrimination under the Program. The City will ensure that all persons, including those qualified individuals with handicaps, have access to the Program.

- A. The Fair Housing Lender and Accessibility logos will be placed on all outreach materials produced by the City. Flyers or other outreach materials will be widely distributed in the Program-eligible area and will be provided to local social service agencies. The Program may sponsor homebuyer orientation classes to help educate homebuyers about the home-buying process and future responsibilities.
- B. The City will track the demographic characteristics of a) all persons submitting applications and b) all persons receiving assistance. The City will regularly conduct a characteristic analysis comparison of the Program’s eligible area compared to the demographic characteristics of the population served by the Program and provide an explanation of any underserved segments of the population. U.S. Census or American Community Survey data will be used to obtain demographic data for comparison purposes. This information is used to show that protected classes (age, gender, ethnicity, race, and disability) are not being excluded from the Program. Fair housing marketing efforts will be adjusted based on the comparison analysis to ensure protected classes are reasonably represented in the Program.
- C. The Housing Program Manager will work with local real estate agents and primary lenders to explain the Program requirements for eligible housing units and homebuyers, and to review Program processes. Local real estate agents and primary lenders will also be encouraged to have their clients participate in the Program.

1.3 NON-DISCRIMINATION REQUIREMENTS

The Program will be implemented in ways consistent with the City’s commitment to non-discrimination. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity on the basis of his or her religion or religious affiliation, age, race, color, creed, gender, sexual orientation, marital status, familial status (children), physical or mental disability, national origin, or ancestry, or other arbitrary cause.

1.4 LOAN EVALUATION TEAM

Participation in the Loan Evaluation Team consists of three representatives appointed by the City Manager: the

Assistant City Manager, Finance Director, and Planning Director, or their designees. The Loan Evaluation Team will review each loan request and may approve it with or without conditions.

2.0 PROGRAM PROCESS

2.1 APPLICATION PROCESS

- A. The City will accept applications on a first-come, first-served basis. Each applicant shall complete an application form, which asks for sufficient information concerning income, employment, assets, and credit history to establish preliminary eligibility for Program participation. Applications will be deemed complete only if:
 - 1. All information is complete and submitted in the format requested;
 - 2. The application is signed and dated;
 - 3. A primary lender's pre-qualification letter is attached to the application.
- B. The City may stop accepting new applications at such a time when the number of persons qualified to receive assistance exceeds the number that can reasonably be expected to secure funding through the Program.
- C. If the applicant meets the minimum criteria specified in these guidelines, their Program eligibility will be confirmed. Applicants may be required to provide additional and/or more recent documentation to confirm Program eligibility.

If the City encounters material discrepancies and/or misrepresentations, and/or there are income, asset, household composition, or other important questions that cannot be resolved to the satisfaction of the Housing Program Manager, the City reserves the right to deny assistance to the household. In this case, the applicant may re-apply after six months have elapsed from the time of written assistance denial.

- D. Once the applicant's Program eligibility is confirmed, they may be invited to a briefing regarding participation in the Program. At the briefing, the application is reviewed and the potential homebuyer is given a preliminary eligibility letter for the Program along with the instructions on proceeding in compliance with the Program regulations.

The preliminary eligibility letter is based on information submitted by the applicant and is not an approval of a City loan. Final eligibility for the Program is determined after the applicant submits all the required documentation associated with a home purchase. The City and the Loan Evaluation Team will evaluate the complete package at that time, including, if necessary, re-evaluation of income.

- E. The applicant is given 60 days in order to find a qualified home and secure a primary loan for the housing unit. Once the applicant has an accepted offer on a qualified home, then an additional 45 days will be added to allow the purchase to be completed and close escrow. (Additional time to close escrow may be granted at the City's sole discretion if the circumstances requiring extra time are beyond the buyer's control.) If during the 60-day time frame the potential homebuyer is unable to locate a qualified home they wish to purchase, an extension of up to 30 days may be given at the City's discretion. However, if it appears the potential homebuyer cannot participate in the Program, the reservation of funds will expire so that other applicants may be given an opportunity to participate in the Program.

2.2 HOME PURCHASE PROCESS

- A. The applicant selects an eligible housing unit (see Section 4) on which to make a purchase offer. As a part of making an offer, the applicant shall include the following provisions in the Purchase and Sale Agreement:
1. The housing unit will be subject to inspection by the City and/or a qualified home inspector hired by the applicant. The housing unit must comply with California state law and current codes at the time of construction and local health and safety standards.
 2. The housing unit must be vacant prior to the close of escrow.
 3. The Purchase and Sale Agreement is contingent on the household and housing unit meeting Program eligibility requirements and receiving Program loan approval.
- B. The applicant will submit an executed Purchase and Sale Agreement (California Association of Realtors standard form) and any required disclosures to the Housing Program Manager.
- C. The applicant (or the applicant's lender, on the applicant's behalf) submits the following documents:
1. Purchase and Sale Agreement and any amendments/addendums (if not previously provided)
 2. Program disclosure statements (if applicable)
 3. Loan application (FNMA 1003) – must be signed and dated
 4. Loan transmittal summary (FNMA 1008)
 5. Good Faith Estimate
 6. Any other loan disclosures
 7. Current income and asset verifications
 8. Homebuyer education certificate
 9. Loan approval – standards conditions acceptable
 10. Loan rate lock
 11. Appraisal (must contain photos)
 12. Home inspection report
 13. Pest report
 14. Preliminary title report
 15. Credit report
 16. Rental verification (if requested)
 17. Estimated settlement statement
 18. Proof of funds for applicant contribution

After initial review of the documents, the Housing Program Manager will request any additional documents needed. Documents may be scanned and emailed, but any required originals shall be received through the mail before Program funds are committed to escrow.

Any significant discrepancies between these documents and/or the information the applicant submitted originally for application purposes will be required to be resolved to the satisfaction of the Housing Program Manager. The Housing Program Manager verifies applicant eligibility, housing unit and loan eligibility, and amount of assistance to be provided consistent with these guidelines.

- D. The City evaluates the applicant's finances to determine the "gap"—the difference between what the applicant can afford to borrow from a primary lender plus their down payment, subtracted from the purchase price of the property. The City calculates the maximum loan amount and prepares a report summarizing the proposed transaction.

- E. The Housing Program Manager submits a recommendation to the City’s Loan Evaluation Team for approval or denial, including the reasons for the recommendation and any conditions associated with a recommended approval. Once the Loan Evaluation Team determines the applicant’s approval or denial, the Housing Program Manager provides written notification to the applicant of approval or denial with reason and, if denied, information on appeal procedures.
- F. When primary lender requirements and any City conditions of approval are met, the City provides required closing instructions and loan documents to the title company responsible for the transaction. Loan documents must be fully executed by both the borrower and the City (when applicable) prior to Program funds being deposited into escrow.

3.0 APPLICANT QUALIFICATION

3.1 INCOME REQUIREMENTS

All applicants must certify that they meet the household income eligibility requirements for the Program and have their household income documented. 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 the low-income limit for Sacramento County, adjusted for household size, as published by HCD, and available at <http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html> (Official State Income Limits).

See Section 3.7 for more information on the income qualification process.

3.2 FIRST-TIME HOMEBUYER STATUS

Eligible applicants must be first-time homebuyers. According to Title 25, Section 7716(m), of the California Code of Regulations:

“First-time homebuyer” means a borrower(s) who has not owned a home during the three-year period before the purchase of a home with CalHome assistance, except that the following individual or individuals may not be excluded from consideration as a first-time homebuyer under this definition:

1. A displaced homemaker who, while a homemaker, owned a home with his or her spouse or resided in a home owned by the spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive twelve-month period and who has been unemployed or underemployed, experienced difficulty in obtaining or upgrading employment and worked primarily without remuneration to care for his or her home and family;
2. A single parent who, while married, owned a home with his or her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant; or
3. An individual or individuals who owns or owned, as a principal residence during the three-year period before the purchase of a home with CalHome assistance, a dwelling unit whose structure is:
 - a. Not permanently affixed to a permanent foundation in accordance with local or state regulations; or
 - b. Not in compliance with state, local, or model building codes and cannot be brought into

compliance with such codes for less than the cost of constructing a permanent structure.

The City will review applicant-provided information, three years of federal tax returns, credit report, and current and previous residence ownership information (if residences are located in Sacramento County) to verify there is no record of property ownership in the previous three years.

3.3 CITIZENSHIP STATUS

Only U.S. citizens and qualified aliens are eligible to receive loans through the Program.

3.4 CREDIT SCORE

A minimum credit score of at least 650 is required for all applicants who will be listed on the property title. Applicants will be required to explain any derogatory items on their credit record. The City may request additional information from the applicant after a review of credit history.

Full payment through escrow of any accounts in collections or with a “charge off” status, including medical charges, will be a condition of the City’s loan approval. The Program loan may not be used toward these payments.

3.5 HOMEBUYER EDUCATION

All Program participants are required to attend a City-approved homebuyer education class. The homebuyer education class must be an eight-hour course offered by a HUD-approved homebuyer counseling agency. The homebuyer education class will cover such topics as the following: preparing for homeownership, available financing, credit analysis, loan closing, homeownership responsibilities, home maintenance, impact of refinancing, and loan servicing. See Attachment A for the Homebuyer Education Plan.

A certificate of completion must be received prior to the City funding of the loan, and it is preferred that the education be completed prior to consideration of loan approval by the Loan Evaluation Team. Counseling must have occurred within three years (36 months) of the date of the applicant’s loan application in order to meet this requirement.

The homebuyer education class must be completed in person by all individuals proposed to be on the title to the property. Online homebuyer education is not acceptable except in rare circumstances and must be approved by the Housing Program Manager beforehand. Scheduling challenges due to work circumstances will not qualify an applicant for an exception to the in-person attendance requirement.

3.6 MINIMUM CONTRIBUTION

Program participants must contribute a minimum down payment of one percent (1%) of the purchase price, but may contribute more if desired. The participant’s contribution may not be used toward closing costs. Seller credits, lender credits, and/or agent credits may not be counted toward the participant’s minimum contribution. However, gift funds, if sourced appropriately, are acceptable.

Eligible households must document that they have the funds necessary for down payment and closing costs as required by the primary lender and the City. The Program’s down payment requirement is in place even if the primary lender has a lower down payment requirement. If the primary lender has a higher down payment requirement, there is no additional down payment requirement required by the Program.

3.7 INCOME QUALIFICATION PROCESS

A. Definitions

1. *Asset* means a cash or non-cash item that can be converted to cash. The value of necessary items such as furniture and automobiles are not included. It is the income earned (e.g. interest on a savings account), not the asset value, which is counted in household income.
 2. *Asset cash value* means the market value less reasonable expenses required to convert the asset to cash, including, for example, penalties or fees for converting financial holdings, and costs for selling real property. The asset cash value (rather than the market value) of an item is counted as an asset.
 3. *Household* means one or more persons who will occupy a housing unit. Non-related live-in caretakers paid from an outside source, unborn children, and foster children do not count in family size determination. Children are counted in family size determination only if they reside with the household at least fifty percent of the time.
 4. *Household income* is the annual gross income of all adult household members that is projected to be received during the coming 12-month period, and will be used to determine program eligibility. Refer to Income Inclusions and Exclusions in Title 25, Section 6914, of the California Code of Regulations for further guidance to the types of incomes to be included or excluded when calculating gross annual income. For those types of income counted, gross amounts (before any deductions have been taken) are used. The household's projected ability to pay must be used, rather than past earnings, when calculating income.
- B. Projected household income will be used to determine whether the applicant is at or below the published HCD income limits. Income qualification criteria, as shown in the most recent CalHome Operations Handbook, will be followed to independently determine and certify the household's annual gross income.
- C. The City will compare its calculation of household income to the income the primary lender used when qualifying the household, recognizing that the primary lender is usually underwriting to FHA or conventional loan guidelines and may not calculate the household income or assets in the same way as required by the Program. If the primary lender's calculation of income is substantially higher than the City's, the City's calculation will be reviewed and/or a note of explanation will be placed in the file.
- D. Income will be verified by reviewing and documenting tax returns, copies of pay stubs or other wage receipts, subsidy award letters or checks, banking and investment statements, and, if necessary, third-party verification of employment forms sent to employers. Other documentation necessary to confirm or calculate a household's income or assets may be required if deemed necessary by the Housing Program Manager. All documentation shall be dated within six months prior to loan closing and kept in the applicant file and held in strict confidence.
- E. There is no asset limitation for participation in the Program. Income from assets, however, is recognized as part of annual income. Assets used for down payment and deposited into an escrow account may be removed from consideration in income calculation.
- F. Income verification may not be more than six months old at the time of loan funding (i.e. loan closing). Applicants who were qualified more than six months before their funding date must be re-qualified prior to loan funding.

4.0 HOUSING UNIT ELIGIBILITY

4.1 LOCATION AND CHARACTERISTICS

- A. Housing units to be purchased must be located within the boundaries of the City of Elk Grove.
- B. Housing unit types eligible for the Program are new or previously-owned single-family residences (including halfplexes) or condominiums. Manufactured homes are not allowed unless on a permanent foundation system and on real property to be owned by the applicant. New homes are eligible only if construction is complete at the time a purchase offer is made.
- C. All housing units must be in compliance with State and local codes and ordinances in effect at the time of construction or substantial rehabilitation.
- D. Housing units located within a 100-year flood zone will be required to provide proof of flood insurance with an endorsement naming the City of Elk Grove as loss payee.
- E. Housing units must be free of any deed restriction that would affect the resale of the property. Properties in the City's Affordable Homeownership Program and the Neighborhood Stabilization Acquisition/Rehabilitation Program are not eligible for Program loans.

4.2 MAXIMUM PURCHASE PRICE

The maximum allowable purchase price for eligible housing units shall be no higher than one hundred percent (100%) of the current median sales price of a single-family home in Sacramento County, as established by comparable sales or information provided by DataQuick or other reputable sources. The maximum purchase price will generally be adjusted annually, but may be adjusted as frequently as monthly in order to accommodate a rapidly changing market.

4.3 INSPECTION REQUIREMENTS

All eligible housing units must be safe and habitable prior to the close of escrow.

Once the applicant has executed a purchase agreement for a housing unit, and prior to a commitment of Program funds, the following steps must be taken for the housing unit to ensure there are no health and safety hazards:

- A. Applicants must obtain a pest inspection report prepared by a qualified pest inspection company at their own cost. The pest report will identify any deficiencies that need to be corrected. Section 1 items must be cleared.
- B. Applicants must obtain a home inspection report prepared by a certified home inspector at their own cost. The certified housing inspector must conduct an inspection in compliance with California Business and Professions Code section 7195, et seq., which must include a walk through the housing unit, determine if it is structurally sound, and identify any code-related and/or health and safety deficiencies that need to be corrected. A list of required repair items will be given to the applicant and their real estate agent to be negotiated with the seller.
- C. Upon completion of all work required by the City, appraiser, pest inspector, and/or certified housing inspector, a final inspection will be conducted prior to close of escrow.

4.4 APPRAISED VALUE

All eligible housing units must have values supported by an appraisal. Appraisals must be performed by independent, state-licensed appraisers with the knowledge and experience necessary to evaluate residential property.

Only the sales of comparable properties approach to valuation is acceptable. Comparable sales used to estimate value should have occurred within the prior six months. The appraisal value must be equal to or greater than the contracted purchase price of the property.

Cash transactions and oral agreements outside of escrow are prohibited. Any agreements between the buyer, seller, and/or real estate agent must be included in the purchase agreement and/or escrow instructions.

5.0 PRIMARY LOAN

Prior to obtaining a loan from the City, a homebuyer must provide evidence of financing for the maximum amount the Primary Lender is willing to loan (the “primary loan”).

5.1 LOAN TYPE AND TERM

The primary loan shall be fully amortized and have a term “all due and payable” in 30 years. There shall not be a balloon payment due before the maturity date of the Program loan. The primary loan shall not include provisions for negative amortizations of principal increases of deferred interest. Graduated payment loan are not allowed.

5.2 INTEREST RATE

The primary loan must have a fixed interest rate in line with or below the current market rate. No temporary interest rate buy-downs are permitted. A permanent interest rate buydown is permitted as long as it does not cost more than one percent (1%) of the loan amount.

5.3 QUALIFYING RATIOS

The front-end (housing) debt-to-income ratio shall be between 26% and 32% and is the percentage of a borrower’s gross monthly income (before deductions) that would cover the cost of the loan principal and interest payment, property taxes, property insurance, mortgage insurance, and HOA dues, if any. The City may approve a housing debt-to-income ratio up to 36% with compensating factors.

The back-end (total) debt-to-income ratio shall be between 30% and 38% and is the percentage of a borrower’s gross monthly income that would cover the cost of housing as described in the paragraph above, plus any other monthly debt payments like car or personal loans and credit card debt, as well as child support and alimony payments. The City may approve a total debt-to-income ratio up to 42% with compensating factors.

For purposes of calculating ratios, the City shall use the higher of the City’s income calculation and the lender’s income calculation. The City shall have no obligation to consider compensating factors in evaluating any proposed loan.

5.4 IMPOUND ACCOUNT

All Program participants are required to have impound accounts for the payment of taxes and insurance to ensure they remain current.

6.0 PROGRAM LOAN

6.1 MAXIMUM ASSISTANCE AMOUNT

The amount of direct Program assistance shall not exceed \$59,650 or twenty percent (20%) of the purchase price, whichever is less. When considered with other available financing and assistance, the Program assistance will only be in the amount necessary to ensure affordable monthly mortgage payments and enable the Borrower to purchase the home, since the CalHome loan is considered gap financing.

6.2 CLOSING COSTS

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 included in the Program loan. The maximum amount of closing costs included in the Program loan will be three percent (3%) of the purchase price or the total of non-recurring closing costs, whichever is less. Closing costs paid by the seller and/or lender (including through lender credits) will not be eligible for inclusion in the Program's closing costs calculation.

6.3 ASSISTANCE CALCULATION

The actual amount of a participant's Program subsidy shall be computed according to the housing ratio parameters specified in Section 5.3. Each borrower shall receive only the subsidy needed to allow them to become a homeowner while keeping their housing costs affordable. The City will use the front-end ratio to determine if the amount of the proposed primary loan is acceptable and, ultimately, the Program subsidy amount required, bridging the gap between the acquisition cost (purchase price plus closing costs) less down payment, and the amount of the primary loan. In the event that the borrower's back-end ratio is below the minimum, the Program subsidy will not exceed that required to bring the borrower's total debt-to-income payment ratio to the minimum back-end ratio.

Qualifying ratios are only a rough guideline in determining a potential borrower's creditworthiness. Other factors, such as credit history, income stability, amount of down payment, and size of loan may influence the decision to approve or disapprove a particular loan.

6.4 LOAN TERMS

All Program assistance shall be made in the form of a deferred payment loan. Both interest and principal shall be deferred.

The Program loan's term shall be for thirty (30) years. The loan must be secured against the property through, at a minimum, a recorded Deed of Trust.

6.5 INTEREST RATE

The Program loan's interest rate shall be three percent (3%) simple interest. Interest will accrue in years 1 through 10 (months 1 - 120). At the end of month 120, the interest rate will be reduced to zero percent (0%). In years 11 through 20 (months 121 – 240), one-tenth (1/10) of the accrued interest will be forgiven at the end of each year (end of months 132, 144, 156, 168, 180, 192, 204, 216, 228 and 240). Interest forgiveness will not be pro-rated for partial years.

Loan principal shall not be forgiven, and the loan period cannot be extended.

6.6 COMBINED LOAN-TO-VALUE RATIO

The loan-to-value ratio for a Program loan, when combined with all other indebtedness to be secured by the property, shall not exceed 99 percent of the sales price plus a maximum of up to 5 percent of the sales price to cover actual closing costs. The combined loan-to-value ratio must include all subordinate financing.

6.7 SUBORDINATE FINANCING

Several funding sources might be required in order for a low-income household to obtain a home. Subordinate loans may be used to cover mortgage subsidy costs that exceed the Program maximum loan amount. All subordinate liens must have the payments deferred and the term must be for at least as long as the term of the Program loan, unless the subordinate loan will be forgiven prior to the Program loan term.

Subordinate financing that involves a resale restriction must be recorded after the Program loan and will be prohibited if the resale restriction cannot be extinguished by payoff of the subordinate financing.

The lien securing repayment of the Program loan shall be subject only to those liens, encumbrances, and other matters of record that have been reviewed and approved by the City. The Program loan must be recorded in the first lien position after the amortized primary loan. Junior lien holders may be required to execute a subordination agreement to subordinate their liens to the Program loan.

6.8 LOAN DOCUMENTS

The borrower(s) shall sign, at a minimum, the following documents:

- A. Loan Agreement;
- B. Promissory Note;
- C. Deed of Trust;
- D. Statutory lending notices (e.g., Truth in Lending disclosure); and
- E. Request for Notice of Default.

Documents will be provided to the escrow company for the borrower to sign. The City's escrow instructions will specify that the Deed of Trust and Request for Notice of Default are to be recorded with the Sacramento County Clerk-Recorder concurrently with the senior lender's documents.

6.9 INSURANCE

At the time of escrow closing, the City shall be named as an additional loss payee on fire, flood (if required), and extended coverage insurance for the length of the loan and in an amount sufficient to cover all encumbrances or full replacement cost of the housing unit. A policy of title insurance naming the City as insured is also required.

6.10 ESCROW PROCEDURES

The escrow/title company shall review the escrow instructions provided by the City and shall issue a California Land Title Association (CLTA) and the American Land Title Association (ALTA) policy after closing. The CLTA policy is issued to the homebuyer and protects them against failure of title based on public records and against such unrecorded risks as forgery of a deed. The ALTA policy is issued to each lender providing additional coverage for the physical aspects of the property as well as the homebuyer's title failure. These aspects include anything which can be determined by only physical inspection, such as correct survey lines, encroachments, mechanics liens, mining claims, and water rights. The City instructs the escrow/title company in the escrow instructions as to what may show on the policy, the amount of insurance on the policy (all liens should be covered), and the loss

payee (each lender should be listed as a loss payee and receive an original ALTA).

Cash out of escrow to the borrower is limited to the amount deposited into escrow by the borrower and not needed for any lender-required down payment. Excess cash over that described above shall be paid to the City, deposited into the City's Reuse Account, and credited as a principal reduction of the homebuyer's loan. Seller, lender, and/or agent credits that create a cash-back situation shall be considered excess cash.

7.0 PROGRAM LOAN REPAYMENT

7.1 LOAN PAYMENT

A. Borrowers may make voluntary payments. Borrowers may begin making payments at any time.

B. Program loan payments must be made to:

City of Elk Grove
8401 Laguna Palms Way
Elk Grove, CA 95758
Attn: Housing Program Manager

C. The City may, at its discretion, enter into an agreement with a third party to collect and distribute payments and/or complete all loan servicing aspects of the Program.

7.2 DUE UPON SALE OR TRANSFER

In the event that a borrower sells, transfers title, or discontinues primary residence in the purchased property for any reason, the principal balance of the Program loan is immediately due and payable to the City.

A. The borrower shall be assured a fair return on investment, including the borrower's investment and any capital improvement. If the net proceeds are insufficient for the City to recapture the balance of Program loan owed, the City shall share the net proceeds with the owner in proportion to each party's investment in the property. The net proceeds are the sales price less repayment of the primary loan and the reasonable and customary closing costs paid by the owner.

B. If an owner wants to convert the property to a rental unit, or any commercial or non-residential use, the loan is due and payable.

C. The loan will be in default if the borrower fails to maintain required fire or flood insurance or fails to pay property taxes. See Attachment B on loan defaults for further information on property restrictions.

7.3 LOAN SERVICING

See Attachment B for loan servicing policies and procedures. **All loans must be repaid.** All legal means to ensure the repayment of a delinquent loan as outlined in the Loan Servicing Plan will be pursued.

The City will be the receiver of loan payments and will maintain a financial record-keeping system to record payments and file statements on payment status. The City will accept loan payments from borrowers prepaying deferred loans, and from borrowers making payments in full upon sale or transfer of the property. Payments shall be deposited and accounted for in the City's Reuse Account. See Attachment C for the City's Reuse Account Plan.

7.4 LOAN MONITORING

The City will monitor borrowers and their housing units to ensure adherence to Program requirements including, but not limited to, the following:

- A. Owner-occupancy
- B. Property tax payment
- C. Hazard insurance coverage
- D. Good standing on Primary loans
- E. General upkeep of housing units

8.0 EXCEPTIONS AND SPECIAL CIRCUMSTANCES

The City may make amendments to these Program Guidelines. Any changes shall be made in accordance with regulations, with minor and routine changes being approved by the City's Loan Evaluation Team. Major program changes shall be approved by the City Council. Changes shall then be sent to HCD for approval.

8.1 DEFINITION OF EXCEPTION

Any case to which a standard policy or procedure, as stated in the guidelines, does not apply or an applicant treated differently from others of the same class would be an exception.

8.2 PROCEDURE FOR EXCEPTIONAL CIRCUMSTANCES

- A. The Housing Program Manager may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including the City's recommended course of action and any written or verbal information supplied by the applicant.
- B. The City's Loan Evaluation Team shall make a determination of the exception based on the recommendation of the Housing Program Manager.

9.0 DISPUTE RESOLUTION AND APPEALS PROCEDURE

Any applicant denied assistance from the Program has the right to appeal in accordance with the procedures in Chapter 1.11 of the Elk Grove Municipal Code.

ATTACHMENT A HOMEBUYER EDUCATION PLAN

The CalHome Homebuyer Assistance Program homebuyer education will conform to the following guidelines:

1. All Program participants shall be required to attend a homebuyer education class that has been approved by the City and by HCD. The homebuyer education class must be an eight-hour course offered by a HUD-approved homebuyer counseling agency.
2. There will be no cost to the Program participant to attend the homebuyer education class.
3. The City will contract with NeighborWorks Homeownership Center, which is a HUD-approved counseling agency. NeighborWorks will offer regularly-scheduled classes at their Sacramento offices, or such other location as to be agreed upon by NeighborWorks and the City.
4. The eight-hour homebuyer education course shall include at a minimum the following topics:
 - a. Preparing for homeownership;
 - b. Available financing;
 - c. Credit analysis;
 - d. Loan closing;
 - e. Homeownership responsibilities;
 - f. Home maintenance;
 - g. Impact of refinancing; and
 - h. Loan servicing.

Methods of homebuyer counseling and education may include, but are not limited to, one-on-one counseling, group workshops, and/or informational sessions. Tools of instruction may include fliers, brochures, PowerPoint presentations, worksheets, etc.

5. NeighborWorks will provide a certificate upon successful completion of the homebuyer education training. The homebuyer certificate must be submitted to the City prior to loan funding.

ATTACHMENT B LOAN SERVICING PLAN

The City of Elk Grove ("City" or "Lender") has adopted these policies and procedures in order to preserve its financial interest in properties that have been assisted with public funds through a secured loan to one or more individuals ("Borrower"). The City 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 City has formulated this document to comply with state regulations regarding the use of these public funds.

The City will be responsible for loan servicing.

1. Loan Repayments

Each loan will have its own service file. The City will record the loans as receivables. Interest will be accrued monthly.

The City shall accept voluntary payments on the loan. Loan payments will be credited first to accrued interest, then to principal. The Borrower may repay the loan balance at any time with no penalty.

Payoff amounts will be calculated by the Housing Program Manager, in coordination with the Finance Department. Payoff amounts shall be calculated by using the amount as of the last interest that was booked, factoring in the payoff date, and providing the payoff amount good through the specified date.

Upon receipt of payment, the City will sign a Deed of Reconveyance and send it to the Borrower or the title company that issued the payoff demand. It shall be the responsibility of the Borrower or title company to record the Deed of Reconveyance.

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 City as mortgagee or loss payee. If Borrower fails to maintain the necessary insurance, the City may take out force placed 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 floodplain, the Borrower will be required to carry the necessary flood insurance. A certificate of insurance for flood and for standard property insurance with an endorsement naming the City of Elk Grove as mortgagee or loss payee will be required at close of escrow. The City, or the City's designee, will verify both the property insurance and flood insurance (if applicable) coverage on an annual basis. Borrower must provide City with any documentation and/or authorization necessary to conduct its verification.

Property taxes must be kept current during the term of the loan. If the Borrower fails to maintain payment of property taxes then the City may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan. The City will monitor payment of property taxes and assessments through review of the records of the Sacramento County Assessor.

3. Required Request for Notice of Default

When the Borrower's loan is in second position behind an existing first mortgage, it is the City's policy to prepare and record a "Request for Notice of Default" for each senior lien in front of City's loan. This document requires any senior lien holder listed in the notice to notify the City of initiation of a foreclosure

action. The City will then have time to contact the Borrower and assist them in bringing the first loan current, if possible. The City can also monitor the foreclosure process and go through the necessary analysis to determine if the loan can be made whole or preserved.

4. Annual Occupancy Restrictions and Certifications

The City will send monitoring letters annually to each Borrower. The letter will require that Borrower self-certify their continued owner-occupancy and submit utility bills and/or other documentation annually to prove occupancy during the term of the loan. Borrowers who fail to respond to the first or second letter will receive a third letter via certified mail. In the event Borrower fails to respond to any of the three letters, the City will attempt to make contact via phone or email. If contact still cannot be made, the City may initiate foreclosure proceedings.

The City will also annually review the mailing address for the property tax bill, as available through the Sacramento County Assessor. In the event the mailing address differs from the property address, City will require an explanation and request additional documentation from the Borrower, including paystubs or bank account statements showing the Borrower's mailing address as the property address.

When Borrower is not residing in the property due to illness and/or hospitalization, Borrower may be considered an owner-occupant only for the initial six month absence, subject to City's approval.

5. 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 City in writing of any change. City and Borrower will work together to ensure the property is kept in compliance with the original program terms and conditions.

The loan balance is immediately due and payable in full in the following events:

- a. Sale of property;
- b. Transfer of property, except when transfer has been approved in writing by the City in advance;
- c. The property, or any portion thereof, is converted from owner-occupied to rental;
- d. Conversion of the property to any use other than residential use, except for partial conversions approved in writing by the City in advance; or
- e. Any event of default, as noted in the Loan Agreement.

Loans shall not be assumable.

Certain types of changes are typical when Borrower does estate planning (adding a relative to title) or if a Borrower dies and property is transferred to heirs. Upon receipt of documentation to the City's satisfaction demonstrating a good faith transfer, and in its sole discretion, the following transfers may not be deemed defaults under the Promissory Note or Deed of Trust:

- a. The transfer of the property to the surviving joint tenant, on the death of a joint tenant.
- b. A transfer of the property where a spouse becomes an owner of the property.
- c. A transfer of the property resulting from a decree of dissolution of marriage or legal separation, whereby one of the original owners remains on the title.
- d. A transfer to an inter vivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

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, Borrower may request that the City allow for a partial conversion where some of the residence is used for a business but the household still resides in the property.

Partial conversions may be allowed at City's sole discretion, and only if 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.

6. Requests for Subordination

- a. The Borrower must agree not to place any additional mortgage or deed of trust on the property, including any line of credit, and must not otherwise use the property as security in any transaction without first obtaining prior written consent of the City. The City must approve in writing all financing and refinancing. The City shall have sole discretion regarding the approval or disapproval of any refinancing request, including any financing terms.
- b. In the event the Borrower desires to refinance the property such that the City's approval to subordinate its interest in the property is required, or in the event the Borrower wishes to obtain a mortgage loan or equity line of credit junior in lien priority to this Agreement, the Borrower shall submit to the City a Request to Refinance, in the format proscribed by the City.
- c. The City shall consider requests for subordination to obtain a lower interest rate (must result in a lower annual percentage rate (APR), not just a lower nominal rate). The City shall not consider any other requests for subordination, including requests for the following reasons: a) to receive cash out; b) to pay-off revolving, automotive, or other consumer debt; c) to pay off loans junior to the City's loan or other debt secured by the property; and d) to pay property taxes, utilities, or assessments.
- d. The City shall only subordinate under the following conditions:
 - i. Proceeds of the new loan shall only be used to refinance the existing loan that is currently in a position senior to the City's interest in the property, the amount of which shall not exceed the remaining balance on the loan plus actual costs associated with the refinance (closing costs), which must be approved in writing by the City.
 - ii. The total indebtedness on the property shall not exceed the current market value.
 - iii. The Borrower shall not receive any disbursement from the proceeds of the refinance.
 - iv. The new loan shall be in favor of an institutional City. Personal loans shall not be allowed.
 - v. The new loan meets to conditions of the program guidelines in effect at the time, including that the loan must:
 - 1) Be fully amortized and have a fixed interest rate that does not exceed the current market rate;
 - 2) Not have a temporary interest rate buy-down;
 - 3) Be at least for the period of time remaining of the Program loan; and
 - 4) Not have a balloon payment due before the maturity date of the Program loan; and
 - 5) Collect impounds for property taxes and insurance.
- e. The City shall review the Request to Refinance and compliance provisions and may, in its sole discretion, grant or deny the request. The City may also grant the request subject to additional conditions, which are within the City's discretion to impose. The City shall have no obligation to grant any request for refinancing. Any approval by the City of refinancing is also subject to the City's approval of any documents that may require City's execution by the senior City, including but not limited to a subordination document.
- f. If approved, the escrow company will provide the proper subordination document for execution and recordation by the City. The City will require a copy of the insurance declarations to ensure the City is still listed as a loss payee. The City will also require the recordation of a new Request for Notice of

Default or Sale.

7. Process for Loan Foreclosure

Upon any condition of loan default, including, but not limited to, non-payment, lack of insurance or property tax payment, change in title or use without approval, or default on senior loan(s), the City will send out a letter to the Borrower notifying them of the default situation. If the default situation continues then the City may start a formal process of foreclosure.

When a senior lien holder starts a foreclosure process and the City is notified via a Request for Notice of Default, the City, 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. City 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 City 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 City 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 City 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 themselves. As long as there is sufficient value in the property, the City 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 City decides to reinstate, the senior lien holder will accept the amount to reinstate the loan up until five days prior to the set "foreclosure sale date." This foreclosure sale date usually occurs about four to six months from the date of recording of the Notice of Default. If the City fails to reinstate the senior lien holder before five 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 City determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the City's lien may be eliminated due to insufficient sales proceeds.

8. City as Senior Lien Holder

When the City is first position as a senior lien holder, active collection efforts will begin on any loan that is 30 or more days in arrears. Attempts will be made to assist the Borrower 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 City may consider foreclosure. City staff will consider the following factors before initiating foreclosure:

- a. Can the loan be cured and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?
- b. Can the Borrower refinance with a private lender and pay off the City?
- c. Can the Borrower sell the property and pay off the City?
- d. Does the balance warrant foreclosure? (If the balance is under \$5,000, the expense to foreclose may not be worth pursuing.)
- e. Will the sales price of home "as is" cover the principal balance owed, necessary advances,

maintenance expenses (e.g., fire insurance, property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism), foreclosure, and marketing costs?

If the balance is substantial and all of the above factors have been considered, the City 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 City to prevent foreclosure.

At the end of thirty days, the City 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 City 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 City 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 City may 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 City may also contract with a local real estate broker to list and sell the home and use those funds for program income eligible uses.

ATTACHMENT C REUSE ACCOUNT PLAN

The City of Elk Grove ("City") commits to maintaining policies and procedures that segregate CalHome funds for future reuse. CalHome loans shall be managed in accordance with the following policies:

1. All repayments of CalHome loan principal and interest shall be received by City and deposited into a separate reuse account maintained by the City's Finance Department. The City provides a detailed tracking system to document CalHome loans, including borrower name and address, loan/reference number, grant year, and principal and interest.
2. The reuse account shall be an interest-bearing account into which all earned interest shall be deposited. Interest earned shall be considered reuse funds and will be used in the same manner and with the same restrictions as principal and interest repayments.
3. All funds deposited into the reuse account shall be the property of the City.
4. All CalHome reuse funds shall be expended in accordance with CalHome regulations. This includes, but is not limited to, income levels, homebuyer education requirements, and maximum loan amounts.
5. Reuse funds may be used for CalHome eligible activities, including the following:
 - a. First time homebuyer mortgage assistance;
 - b. Costs of homebuyer education for each eligible borrower receiving mortgage assistance from the reuse account (not to exceed \$350 per borrower);
 - c. Loan processing activity delivery fee, as applicable, in accordance with CalHome Program requirements in effect at the time of the loan; and
 - d. Up to five percent (5%) for loan servicing.
6. A portion of the funds deposited in the CalHome reuse account may be used to pay for the delivery of CalHome activities funded from the reuse account. The amount is dependent upon the activity funded, and is calculated as a percentage of the loan made.
7. Reuse funds may be used within the boundaries of the City of Elk Grove.
8. The City shall allow HCD full access to the reuse account records for the purpose of determining City's compliance with CalHome regulations.