

The Housing Authority of the City of Avalon

RULES, POLICIES AND PROCEDURES

**Low and Moderate Income Down Payment
Assistance Program**

2015 Program Guidelines

INTRODUCTION

Increasing home ownership rates for Low and Moderate Income families is a priority for the Housing Authority of the City of Avalon (“Agency”). To that end, the Agency desires to create a Low and Moderate Income Down Payment Assistance Program (“Program”). The Program will provide matching funds to assist Low and Moderate Income households in the purchase of their first home. The Agency will utilize “Low/Mod Funds” to provide first time homebuyer assistance.

The Program provides financial assistance to eligible first time homebuyers to purchase a home anywhere within the City of Avalon.

I. PROGRAM GOALS

The Program is designed to provide down payment assistance to help Low and Moderate Income households purchase their first home. The Program has the following goals:

- Reduce the number of vacant foreclosure properties within the City.
- Increase homeownership opportunities within the City.
- Provide working individuals and families with the opportunity to become homeowners.
- Improve the condition of neighborhoods and housing through pride of ownership.
- Increase the number of Low and Moderate Income owner-occupied households.
- Facilitate the resale of existing housing stock.

II. PROGRAM SUMMARY

A. Purpose

This document describes the Rules, Policies and Procedures for implementation of the Program. The information is intended to explain the Program to interested parties and Participating Lenders that assist potential Low and Moderate Income homebuyers interested in purchasing their first home.

B. Fair Housing Policy

The Agency will not discriminate against any potential homebuyer under the Program on the basis 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. The Program will be conducted and administered in conformity with Title VI of the Civil Rights Act of 1964 and the Fair Housing Act and implementing regulations. In addition, the Agency will ensure that all affordable housing offered for-sale through the Program is affirmatively marketed and that actions are taken to overcome the effects of any impediments to fair housing choice.

C. Outreach and marketing

The Agency will actively market the Program and provide information to the public as needed to encourage participation. The marketing and outreach efforts to potential homebuyers may include, but are not limited to, the following:

- Public notices;
- Press releases;
- Advertisements in local newspapers, radio stations, and local television;
- Community meetings, homebuyer fairs and seminars;
- Distribution of information as appropriate.

III. PROPERTY REQUIREMENTS

This section describes the requirements pertaining to properties eligible for purchase through the Program

A. Location

The Agency will only consider properties within the incorporated limits of the City of Avalon.

B. Eligible properties

1. Eligible properties for purchase under the Program include single family (one unit) attached or detached dwellings, town homes or condominiums, or manufactured homes attached to permanent foundations ("Eligible Property"). Mobile home properties are ineligible for purchase under the Program.

2. Homes currently used as rental properties are not eligible properties for purchase through the Program unless the tenant occupying the property is also the purchaser of the property or the rental property has been vacant for a minimum of four months prior to the acceptance of an offer to purchase.

C. Condition of eligible property

1. Eligible properties for purchase must comply with all applicable State and City laws, codes, rules, and regulations. The foregoing notwithstanding, manufactured housing must meet the Manufactured Home Construction and Safety Standards established in 24 CFR Part 3280, as amended from time to time. Applicants shall obtain both a home and pest inspection report from an independent and qualified third party inspector (“Property Inspection Reports”) at either the Applicant or seller’s expense prior to the close of escrow to ensure that the property for purchase is not substandard or needing major repairs. The home inspector should be certified through the California Real Estate Inspection Association (CREIA). The Agency reserves the right to accept or reject Property Inspection Reports if, in its sole discretion, it determines that the reports are inadequate. Failure to provide adequate Property Inspection Reports can result in disapproval of the Loan.

2. The Applicant or seller must correct or abate all health and safety and code violations per Federal Housing Administration guidelines reported within the Property Inspection Reports and or appraisal report, and shall correct and obtain permits for any un-permitted improvements (if applicable) as a condition precedent to funding a Program Loan. Upon the Agency’s review of the Property Inspection Reports, it may, in its sole and absolute discretion, require any other necessary repairs or deem any property ineligible for purchase under the Program that requires extensive repair and/or lead based paint remediation.

3. The seller shall provide homebuyer a one year home warranty through a national home warranty company.

D. Title and form of home ownership

Home ownership means ownership in fee simple title in a single family dwelling unit, town home or condominium unit. For purposes of manufactured homes, homeownership means ownership in fee simple title of the land the manufactured home is permanently affixed to.

E. Lead based paint requirements

For properties constructed prior to 1978 the following shall apply:

1. The Agency shall provide the Applicant with a lead-based paint notification/information brochure in the Program application package. This notification shall be signed by the Applicant and submitted to the Agency with the application; and

2. The required Property Inspection Report shall identify any lead based paint components and defective paint surfaces; and

3. If defective paint surfaces and/or deteriorating lead components are found, the Agency will determine if further testing is required; and

4. Should additional testing be required, the Agency will order a licensed and certified lead based paint company to conduct the testing; and

5. If lead based paint abatement work is required, the Agency may, in its sole and absolute discretion, include as part of the loan an amount to complete the abatement work, testing and clearance fees; and

6. The loan amount for lead abatement, testing and clearance fees shall not exceed a total of \$15,000, which amount may reduce the amount available for down payment and closing cost assistance. In no case shall the total loan exceed \$200,000; and

7. Funds for needed lead based paint abatement, testing and clearance fees will be deposited into an escrow account and withdrawn upon completion of the work, Agency approval of the work, and all required clearances provided; and

8. Any unused funds will be returned to the Agency and will be applied toward reducing the principal amount of the loan; and

9. The Agency reserves the right to reject the purchase of any home requiring extensive repairs and/or remediation; and

10. If the Agency approves the use of funds for lead abatement, testing and clearance fees, all required abatement work may be completed after the close of escrow.

F. Homeowner's insurance

The Applicant must, as a condition of the loan, maintain homeowner's insurance on the property for the life of the loan and add the Agency and the City as additional insureds on the policy. Evidence of insurance shall be submitted to the Agency on an annual basis.

G. Flood insurance

Avalon participates in the National Flood Insurance Program, therefore, properties located within a 100-year flood plain or a Special Flood Area as identified by FEMA will be required to be covered by flood insurance to be eligible for loans through the Program.

IV. APPLICATION PROCESS/HOUSEHOLD ELIGIBILITY REQUIREMENTS

This section describes the Program Application requirements and requirements pertaining to the eligibility of households/applicants (“Applicant(s)”) such as income and asset requirements, first-time homebuyer status, principal residence requirements, down payment and housing cost criteria, household composition, and preference criteria.

A. Application process

1. This section is meant to provide a general overview of the Application process; please refer to the Interest Application and the Program Application for a complete and detailed list of deadlines and materials to be submitted:

2. Potential Applicants must first submit an Interest Application, available for pick-up at City Hall.

3. Following the close of the Initial Interest Application period, the Agency will make an initial determination about which Applicants may receive assistance under the Program. The Agency will provisionally fund requests for assistance beginning with (i) Applicants who have been displaced by actions of the Agency, City, County, State, or Federal Governments; followed by (ii) the remaining Applicants, beginning with the Applicant requesting the least amount of down payment assistance and continuing with assistance requests of increasing value until all Program funds have been exhausted. Successful Applicants will be notified and must complete the next steps of the Application process. Applicants who do not receive funding initially will be placed on a waiting list, according to the preference criteria listed in this paragraph. In the event of a tie where more than one Applicant is requesting the same amount of assistance or shares a preference criteria, a lottery will be held to determine the order in which Applicants will receive assistance.

4. Interest Applications received after the initial Interest Application Period will be placed on the waiting list (based upon the preference criteria) or notified of provisional funding if Program monies are available.

5. Applicants who have provisionally received down payment assistance funds will have ninety (90) days from the date of notification to Close Escrow on an Eligible Property. On a case-by-case basis, the Agency reserve the right to extend the allowable time for closing escrow by up to thirty (30) days.

Prior to the Close of Escrow and within forty-five (45) days of being notified that down payment assistance funds have been reserved for them, the Applicant must:

- i. Complete a full Program Application, and

ii. Obtain a Mortgage Pre-Qualification Letter from a bank, verifying the loan the Applicant can expect to obtain from a bank.

6. Applicants who fail to complete the Program Application and obtain a Mortgage Pre-Qualification Letter, or after completing the Application are determined to not qualify for the Program, will forfeit the provisional award of assistance and the funds previously reserved for that Applicant shall be released and offered to the next person on the waiting list, if any, or made available for future Applicants.

B. Preference criteria

Preference will be given in the following order to the following eligible Applicants:

1. Households displaced as a result of actions by the City, Agency, County, State, and Federal governments.

2. All other eligible households will receive funding in an order determined by the amount of down payment assistance requested, with the household requesting the least amount of funding receiving assistance first. In the event of a tie, where two or more households request the same amount of funding; a lottery will be held to determine the order of funding for those Applicants.

C. Income requirements

The Applicant shall certify that they meet the household income eligibility requirements for this Program. The chart listing the eligible income ranges can be found on page 14 of these Guidelines. Agency shall make a final determination of eligibility after review of the completed Application. The income limits in place at the time of application will apply when determining Applicant income eligibility

D. Asset requirements

Applicant will be permitted to retain up to \$10,000, or six times their monthly housing costs, whichever is greater, in liquid assets after close of escrow. Liquid assets include, but are not necessarily limited to: stocks, bonds, securities, and funds from savings and/or checking accounts. Retirement accounts will not be considered a liquid asset for the purposes of the Program. Generally, liquid assets are assets that can be liquidated into cash within a short period of time (i.e., 30 days or less). Retirement accounts will not be considered liquid assets for the purposes of the Program. If the Applicant has or will have in excess of \$10,000 in assets after the close of escrow the difference must be applied toward reducing the Agency's assistance.

E. First-time homebuyer requirement and definition

A first-time homebuyer is and individual who meets any one of the following criteria:

1. An individual, or the individuals spouse, has had no ownership interest in a principal residence during the previous two-year period ending on the date

of application to this Program;

2. An individual who is displaced, due to death of spouse or divorce, and has only owned a home with a former spouse

3. An individual who has only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations

4. An individual who has only owned a property that was not in compliance with State, local, or model building codes and which cannot be brought into compliance for less than the cost of constructing another permanent structure

The Applicant must sign a sworn affidavit attesting that they meet one of these criteria and return that affidavit with the Program Application. If the Agency determined that the Applicant does not meet one of the above criteria, the Applicant(s) shall not be eligible for assistance.

F. Principal residence requirement

The Applicant(s) must occupy the property as their principal residence. Temporary subletting/renting of the residence or a room within the residence is not permitted. A covenant in the second trust deed will require that the purchased property remain the Applicant's principal residence. The loan documents (Promissory Note, Deed of Trust, and the Covenant Agreement) between the Agency and the Applicant(s) will also incorporate this requirement and the restriction on subletting or renting a portion of the property.

G. Household composition

Applicants must show proof that all household members identified on the Program application and those shown on the most recent Federal income tax return have lived together at the same address during the last consecutive 12 months prior to the date of submittal of the Agency's application.

In the case where a person is shown on a Federal income tax return, but no longer resides in the household, documentation must be provided to the Agency showing the status of that person and their new address. The new address must be different from that of the Applicant(s); copies of recent social security statements, telephone bills, utility bills, or other similar documentation, deemed appropriate by the Program Director, shall be provided.

V. DETERMINATION OF GROSS INCOME

A. Verification of income

All Applicant(s) shall submit documentation on all adults (18 years or over) that will live within the home so that the Agency can verify gross income. If applicable, Applicant(s)

shall submit the following documentation for all adults that will live within the home: (i) wage receipts for the past three months; (ii) federal income tax returns for the past three years; (iii) any social security award letter; (iv) any pension(s) award letter; (v) banking statements for the past three months, etc. Failure to submit adequate and complete documentation may disqualify the Applicant(s) from participation in the Program.

B. Gross income

The Agency shall determine the gross income of Applicant(s) by following those guidelines found in the California Code of Regulations, title 25, section 6914, as may be amended from time to time, provided below:

“Gross income’ shall mean the anticipated income of a person or family for the twelve-month period following the date of determination of income. If the circumstances are such that it is not reasonably feasible to anticipate a level of income over a twelve-month period, a shorter period may be used subject to a redetermination at the end of such a period. "Income" shall consist of the following:

(a) Except as provided in subdivision (b), all payments from all sources received by the family head (even if temporarily absent) and each additional member of the family household who is not a minor shall be included in the annual income of a family. Income shall include, but not be limited to:

(1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;

(2) The net income from operation of a business or profession or from rental or real or personal property (for this purpose, expenditures for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business);

(3) Interest and dividends;

(4) The full amount of 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 and disability compensation, worker's compensation and severance pay (but see subdivision (b) (3)).

(6) Public Assistance. If the public assistance payment includes an amount specifically designated for shelter and utilities which is subject to adjustment by the public assistance agency in accordance with

the actual cost of shelter and utilities, the amount of public assistance income to be included as income shall consist of:

(A) The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus

(B) The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities,

(7) Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;

(8) All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family or spouse (but see subdivision (b) (5)).

Where a family has net family assets in excess of \$5,000, income shall include the actual amount of income, if any, derived from all of the net family assets or 10 percent of the value of all such assets, whichever is greater. For purposes of this section, net family assets means value of equity in real property other than the household's full-time residence, savings, stocks, bonds, and other forms of capital investment. The value of necessary items such as furniture and automobiles shall be excluded.

(b) The following items shall not be considered as income:

(1) Casual, sporadic or irregular gifts;

(2) Amounts which are specifically for or in reimbursement of the cost of medical expenses;

(3) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance worker's compensation), capital gains and settlement for personal property losses;

(4) Amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment. Any amounts of such scholarships, or payments to veterans not used for the above purposes of which are available for subsistence are to be included in income;

(5) The special pay to a serviceman head of a family away from home and exposed to hostile fire;

(6) Relocation payments made pursuant to federal, state, or local relocation law;

(7) Foster child care payments;

(8) The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is in excess of the amount actually charged the eligible household;

(9) Payments received pursuant to participation in the following volunteer programs under the ACTION Agency:

(A) National Volunteer Antipoverty Programs which include VISTA, Service Learning Programs and Special Volunteer Programs.

(B) National Older American Volunteer Programs for persons aged 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Program to Assist Small Business Experience, Service Corps of Retired Executive (SCORE) and Active Corps of Executives (ACE).”

VI. HOUSEHOLD FINANCIAL REQUIREMENTS

A. Income/credit worthiness

1. Applicant(s) shall have sufficient income and credit worthiness and meet all lender underwriting requirements and qualify for primary financing before seeking approval from the Agency for Program assistance. On a case-by-case basis, the Agency Executive Director, or his or her designee, may consider exceptions from the underwriting requirements for extreme or extenuating circumstances (including but not limited to divorce or death of a spouse). A bankruptcy or foreclosure in the last 3 years will automatically disqualify applicant.

2. If the Applicant intends to have any other individual(s) sign the Promissory Note (“Co-Signers”) or both the Promissory Note and the grant-deed (“Co-Mortgagor”), those individual(s) must intend to reside continuously at the Property as their principal residence at all times during the Applicant’s ownership of the Property. Non-occupant Co-Signers and/or Co-Mortgagors are not permitted under this Program.

4. All Co-Signers and Co-Mortgagor’s will have their income considered when determining whether Applicant meets the income requirements of this Program.

B. Minimum monetary contribution

1. The Applicant(s) must have sufficient assets to provide a minimum monetary contribution equal to 3.5% of the purchase price of the home to be used for either a down payment or for closing costs associated with the purchase of the property.

2. The 3.5% down payment from the Applicant(s) may be either a gift or from the Applicant's own funds, but not a loan.

3. The home seller cannot directly or indirectly provide the Applicant's down payment.

4. If the down payment, or any portion thereof, is a gift, the source of the gift must be disclosed.

5. If the down payment or any portion thereof is a gift, the giver must provide a notarized letter stating the amount of the gift and that no repayment of the gift funds is required.

C. First mortgage loan requirements

1. Obtaining first mortgage loan

The Applicant(s) will be required to obtain and use the maximum first mortgage loan they can qualify for.

2. Fixed rate first mortgage

The Applicant(s) will be required to accept a fixed rate first mortgage loan. Adjustable rate loans, balloon payments, interest only payment loans, temporary buy-downs, negatively amortizing, or prepayment penalty loans are not allowed under the Program.

3. Above market interest rates

First mortgage interest rates that are above the current going market rate for similarly qualified-borrowers, due to the Applicant's poor credit, housing cost ratios or for any other reasons will not be permitted.

VII. ELIGIBLE INCOME LIMITS AND MAXIMUM AFFORDABLE HOUSING COST

A. ELIGIBLE INCOME LIMITS

Current Income Limits based on Los Angeles County Area Median Income (“AMI”)

Number of Persons in Household	Extremely Low Income (Equal to or less than 30% of AMI)	Very Low Income (Greater than 30% of AMI and Equal to or less than 50% of AMI)	Low Income (Greater than 50% of AMI and Equal to or less than 80% of AMI)	Moderate Income (Greater than 80% of AMI and Equal to or less than 120% of AMI)
1	\$0 - \$17,950	\$17,950.01 – 29,900	\$29,900.01 - \$47,850	\$47,850.01 - \$54,450
2	\$0 - \$20,500	\$20,500.01 - \$34,200	\$34,200.01 - \$54,650	\$54,650.01 - \$62,200
3	\$0 - \$23,050	\$23,050.01 – \$38,450	\$38,450.01 - \$61,500	\$61,500.01 - \$70,000
4	\$0 - \$25,600	\$25,600.01 - \$42,700	\$42,700.01 - \$68,300	\$68,300.01 - \$77,750
5	\$0 - \$27,650	\$27,650.01 - \$46,150	\$46,150.01 – \$73,800	\$73,800.01 - \$83,950
6	\$0 – \$29,700	\$29,700.01 - \$49,550	\$49,550.01 - \$79,250	\$79,250.01 - \$90,200
7	\$0 - \$31,750	\$31,750.01 - \$52,950	\$52,950.01 - \$84,700	\$84,700.01 - \$96,400
8	\$0 - \$33,800	\$33,800.01 - \$56,400	\$56,400.01 – \$90,200	\$90,200.01 - \$102,650

These limits will be adjusted annually based upon the current AMI figures.

B. Definition of monthly maximum affordable housing costs:

The monthly maximum affordable housing cost for Moderate Income families shall not exceed one twelfth (1/12) the product of 35% times 110% of the annual area median income adjusted for family size. For Low Income families, the monthly maximum affordable housing cost shall be less than one-twelfth (1/12) of thirty percent (30%) of seventy percent (70%) of the AMI, adjusted for family size. For Very Low Income families, the monthly maximum affordable housing cost shall be less than one-twelfth (1/12) of thirty percent (30%) of fifty percent (50%) of the AMI, adjusted for family

size. For Extremely Low Income families, the monthly maximum affordable housing cost shall be less than one-twelfth (1/12) of thirty percent (30%) of thirty percent (30%) of the AMLI, adjusted for family size.

The adjusted household size appropriate for each unit size is based on the number of persons exceeding the number of bedrooms by one as follows:

Unit Size	Household Size
Studio	1.0 Persons
One Bedroom	2.0 Persons
Two Bedroom	3.0 Persons
Three Bedroom	4.0 Persons
Four Bedroom	5.0 Persons

While the actual household size for a residential unit may be less than or exceed the figures identified in the table above, the household size limitations established herein are used to determine the applicable area median income adjusted for household size and for calculation of the applicable monthly maximum affordable housing costs for the unit size (number of bedrooms).

C. Calculation of maximum affordable housing cost

The current monthly maximum affordable housing cost for each unit size and calculation of the respective affordable home price range under the Program is depicted in the following table. The maximum affordable housing cost will be adjusted annually. The maximum loan amount amounts are subject to change based on interest rates and the annual income limits. Housing costs include mortgage principal, interest, taxes, insurance, maintenance and utility expenses, and home owner association dues, if applicable.

Maximum Allowable Monthly Housing Cost for Each Income Category

Number of People in Household	Very Low Income	Low Income	Moderate Income
1 (0 bedrooms)	\$567	\$794	\$1,455
2 (1 bedroom)	\$648	\$907	\$1,664
3 (2 bedroom)	\$729	\$1,020	\$1,870
4 (3 bedroom)	\$810	\$1,134	\$2,079
5 (4 bedroom)	\$875	\$1,225	\$2,246

Maximum Allowable Monthly Rental Cost for Each Income Category

Number of People in Household	Extremely Low Income	Very Low Income	Low Income	Moderate Income
1 (0 bedrooms)	\$340	\$567	\$680	\$1,247
2 (1 bedroom)	\$389	\$648	\$778	\$1,426
3 (2 bedrooms)	\$437	\$729	\$875	\$1,603
4 (3 bedrooms)	\$486	\$810	\$9,72	\$1,782
5 (4 bedrooms)	\$525	\$875	\$1,050	\$1,925

VIII. AGENCY SECOND MORTGAGE TERMS

A. Agency second mortgage/down payment assistance

Each Applicant(s) is eligible for up to \$200,000 in down payment assistance funding from the Agency. The Agency will provide \$5 of assistance for every \$1 of down payment provided by the Applicant.

**Example:
Agency second mortgage/down payment assistance**

Purchase Price:	<u>\$240,000</u>
Buyer 3.5% Down Payment:	\$8,400 (about 16.7% of total down payment of \$45,400)
Agency Loan	\$37,000 (about 83.3% of total down payment of \$45,400)
Bank Loan (1st Mortgage):	\$194,600
Total:	<u>\$240,000</u>

*The total Agency loan is \$42,000 (\$37,000 for down payment assistance and \$5,000 for non-recurring closing costs); which is a 5:1 match of buyer-provided down payment funds.

B. Closing costs

The Agency may provide up to \$7,500 to assist the Applicant(s) in paying for non-recurring closing costs. The amount of closing cost assistance will be combined with

the amount of down payment assistance and will be secured against the property as a part of the Agency's second mortgage. The total Agency involvement, including up to \$7,500 for closing costs, shall not exceed \$200,000.

C. Resale

Owner-occupied affordable housing purchases assisted with Low/Mod Funds remain affordable for a period of forty-five years ("Affordability Period"). This means that within the Affordability Period, buyers who wish to sell their home purchased with Agency assistance must either (i) resell the home at an affordable price to another affordable home-buyer, or (ii) participate in the Recapture provision discussed below. An "affordable home-buyer" is one whose income qualifies them as either Low or Moderate Income, as defined herein.

D. Recapture

Recapture is a mechanism of the Agency used to recover all of the affordable housing assistance when the initial buyer voluntarily or involuntarily (through foreclosure) sells the house during the affordability period.

In the event of a sale of the home during the Affordability Period to a non-affordable home-buyer, at a price that is not affordable, the Agency will recapture, in full, the Low/Mod Funds loaned under this Program **and** the Agency's equitable share of the appreciation (net proceeds), as discussed below.

If the home is sold at an affordable price to a qualifying Low- or Moderate-Income household, the seller will not have to share any of the equity appreciation (net proceeds), provided the affordability restrictions remain on the property. In this case, the Agency will only recapture the original loan amount given under this Program and the Period of Affordability will reset to forty-five years for the new owner.

The equitable share of the appreciation refers to the amount of the appreciated market-rate resale value of a home minus superior loan payments, closing costs, and the value of any verifiable capital improvements, multiplied by the percentage of the down payment the Agency initially provided through this Program.

Capital improvements are verifiable, through original receipts and/or contracts, and include improvements such as roof replacement, new additions, re-plumbing, replacement of water heater, a/c or heating units, solar energy panels, new kitchen or bathroom cabinets, floor cover, etc. Regular maintenance items, such as painting, replacing fixtures, replacing broken windows, torn screens, fixing or adding sprinklers, are not considered capital improvements under the Program. The Agency will have the final determination as to what items qualify as capital improvements.

Example: Appreciation (net proceeds) calculation

	<u>Year 1</u>	<u>Year 5</u>	<u>Year 10</u>
Initial Purchase Price	\$240,000	\$240,000	\$240,000
Final Sale Price	\$260,000	\$290,000	\$310,000
First Loan Payoff	- \$155,000	- \$145,000	- \$130,000
Agency Down Payment Loan Payoff (Low/Mod Funds)	- \$70,000	- \$70,000	- \$70,000
Return Buyer Down Payment	- \$15,000	- \$15,000	- \$15,000
Closing Costs on Sale	- \$5,000	- \$5,000	- \$5,000
Value of Capital Improvements	\$0	- \$ 5,000	- \$12,000
Net Proceeds; to be shared by Buyer and Agency according to the percentage each contributed to the initial down payment	\$15,000	\$50,000	\$78,000

Example: Buyer and Agency share of appreciation where Agency provided 83.3% (\$70,000 of a \$85,000 down payment) of initial down payment investment in home

	<u>Year 1</u>	<u>Year 5</u>	<u>Year 10</u>
Net Proceeds from Sale of Home	\$15,000	\$50,000	\$78,000
Agency Share (contributed 83.3% of original down payment)	\$15,000 x .833 = \$12,495	\$50,000 x .833 = \$41,650	\$78,000 x .833 = \$64,974
Buyer Share (contributed 16.7% of original down payment)	\$15,000 x .167 = \$2,505	\$50,000 x .167 = \$8,350	\$78,000 x .167 = \$13,026

E. Terms of Agency second mortgage loan

1. Secured second mortgage

The Agency assistance, or Low/Mod Funds, used for down payment and/or closing costs will be in the form of a secured second mortgage. A second deed of trust will be recorded to secure the Agency's loan.

2. Monthly loan payments

There will be no monthly payments on the Agency second mortgage.

3. Interest on second mortgage

No interest will be charged on the Agency second mortgage except in the case of a loan default. In such case the interest rate charged will be 5% simple interest from the date of the loan to the time of default.

4. Payment of Agency second mortgage (Recapture Provision)

The Agency second mortgage is 100% immediately due and payable upon on the 30th anniversary of the loan, or the occurrence of any of the following events, whichever occurs first:

- a. Upon sale of the property,
- b. Transfer of title of the property or any interest in the property (i.e., adding any new owner to the title), except when done by court order, such as a divorce;
- c. When the Applicant(s) ceases to reside in the property,
- d. When the Applicant(s) leases or subleases the property,
- e. When the Applicant(s) breaches the terms of the Agency deed of trust (i.e., does not maintain unit, fails to pay property taxes, HOA dues, etc.)

The only circumstance under which the Agency second loan is not immediately payable upon the 30th anniversary of the loan is when the Qualified Homebuyer enters into a repayment program with the Agency to repay the loan over a period of time. The Agency shall have complete control and discretion over the terms of any repayment program it enters into.

Under no circumstance will temporary or permanent leases of the property be permitted. (i.e., renting or leasing of the property due to job relocation is also prohibited).

5. Acceleration Clause

An acceleration clause shall be in effect if the property title is transferred (unless transfer is by court order, such as in the event of a divorce), equity is withdrawn from the property, the home is no longer the borrower's principal residence, or the borrower fails to report changes, including, but not limited to, additions, increases in household size (other than those increases directly related to a birth, marriage or other Agency-approved household size increase), fire and vandalism, discovery of willful misrepresentations in connection with the program regulations or financial default. On a case-by-case basis, the Agency may consider the transfer of title in the case of

marriage.

The acceleration clause shall become operative if the borrower willfully and knowingly makes a false statement or representation or knowingly fails to disclose a material fact for the purpose of qualifying for the down payment assistance or, in completing certifications, affidavits or recertification of occupancy. The Agency shall demand full repayment of the loan principal, any accrued interest, and 100% of their share of any appreciation equity.

6. Hardship Exception

Notwithstanding the acceleration clause provision described in (5) above, at the request of the Applicant(s), and for a specific occasion and evidenced good cause, Agency may, in its sole and absolute discretion, in writing waive the requirement of acceleration and authorize a waiver, extension, deferment, or other accommodation regarding the Program Loan and repayment thereof. Waiver shall only occur on a case-by-case basis and shall be subject to the discretion of the Agency; provided no future rights for waiver, extension, deferment, or other accommodation are implied.

7. Assumption

The Agency loan is not assumable

F. Subordination, resale, refinancing and withdrawal of equity

The request for the subordination shall be received in writing by the Agency. All requests shall be reviewed by Agency staff or their designee to determine approval or denial of the subordination. All determinations made by the Agency or their designee shall be final. Consideration for subordinations shall be as follows:

1. Resale amount

The property shall not be sold for less than the sum of the existing liens, encumbrances and interest, including property tax liability. In the case of a foreclosure, the Agency reserves the right to cure the default and/or exercise a Right of First Refusal.

2. Refinancing to reduce monthly payments

Refinancing of the first mortgage is allowed for the purpose of reducing monthly payments due to lower market interest rates. In no case, shall the amount of the new first mortgage exceed the then outstanding balance of the original first mortgage plus reasonable closing costs associated with the refinance not to exceed 5% of the first mortgage loan amount. Under this circumstance only, a request for subordination of the Agency's second deed of trust may be reviewed and approved by Agency staff.

3. Withdrawal of equity - Agency loan pay-off and equity share

The withdrawal of equity from the property will require the immediate repayment of the Agency's second mortgage, the Agency's share of the equity based on an appraisal, and all unsecured notes in full, as applicable, including principal plus accrued interest if any. This includes the withdrawal of equity for all purposes including, but not limited to;

a. Refinance or payoff of a third deed of trust or other form of lien junior to the Agency's deed of trust;

b. New first mortgage that includes mortgage payment arrearages.

G. Annual recertification of occupancy/annual report to Agency

Each Applicant(s) agrees and will be required to allow the Agency to recertify occupancy. At a minimum this re-certification will occur on an annual basis for the duration of the Applicant's occupancy of the home during the Affordability Period. The recertification of occupancy is to confirm that the assisted household is still the primary occupant of the home. Recertification may include requiring the Applicant(s) to provide copies of current property insurance showing the Agency as additional insured or other documentation as requested by the Agency.

H. Inclusionary or Low/Moderate Income Housing Requirement – For Developers

If the Program is used to purchase a home which was built by a developer, and the home was built by that developer to satisfy any inclusionary or low/moderate income housing requirement, the developer shall receive partial credit for such house. Partial credit toward the developer's inclusionary or low/moderate housing requirement shall be granted in an amount equal to the proportion of the home which is purchased using the Applicant's own funds.

Example:

Purchase Price:	<u>\$240,000</u>
Buyer 3.5% Down Payment:	\$8,400
Agency Down Payment Loan	\$37,000
Bank Loan (1st Mortgage):	\$194,600
Total:	<u>\$240,000</u>

Here the Agency would also provide \$5,000 for non-recurring closing costs, for a total Agency loan of \$42,000, which equals 5 Agency dollars for each 1 Applicant dollar.

In this example, the Applicant is paying for \$203,000 of the \$240,000 home purchase price, or 84.5% of the purchase price. If this home were built by a developer to satisfy an inclusionary or low/moderate income housing requirement, the developer would receive credit for .845 of a home.

VIII. LOAN APPLICATION AND PROGRAM PROCESSING PROCEDURES

The Program is designed to be used in conjunction with the normal mortgage loan application process. The following outline sets forth the general program procedures and sequence of events. From time to time, at the discretion of the Agency Executive Director or his/her designee, these procedures may be modified.

1. Interested Applicant(s) may obtain copies of the Program Guidelines, Applications, and all Loan Documents from City Hall, or may contract the city at (310) 510-0220 and request a copy of the Program Guidelines and Applications.

2. Once the Applicant(s) have reviewed the Program Guidelines and Procedures to determine if they might qualify, on the basis of income and whether they are bona-fide first time homebuyers, Applicant(s) should submit an Initial Interest Applicant to the Agency.

3. Once all Initial Applications have been received; the Agency will make a provisional determination as to which Applicants will receive Program Funding, conditioned upon the successful completion of the Full-Length Program Application.

4. Those Applicants receiving provisional funding following their submittal of an Initial Interest Application should continue with the Application process, which includes: (i) registering for a First Time Home Buyer Seminar and obtaining the certificate showing they have completed the course; (ii) contacting a mortgage lender and obtaining a pre-qualification letter; and (iii) beginning the Full-Length Program Application.

The Fair Housing Council offers a free First Time Homebuyer seminar on a monthly basis. Contact them at 1-800-655-1812 to register and/or find out when and where the next seminar is offered. Applicants can take any other HUD approved first time home buyer seminar, however, Applicants must ensure the provider's class is HUD approved.

5. The Applicant(s) should also contact the Los Angeles Community Development Commission (LACDC) at (323) 890-7235 or go to their web site at <http://www.lacdc.org> to obtain information and see if they qualify for the Mortgage Credit Certificate Program (MCC). The MCC is administered by the LACDC and applicants will need to check with them regarding qualifying standards and whether the LACDC is currently offering MCC assistance.

6. The Program Guidelines and Applications have a summary of the guidelines and documents that need to be signed and submitted along with the Lender's loan package.

IX. LENDER ELIGIBILITY AND PARTICIPATION REQUIREMENTS

A. Lender criteria

1. Participating Lenders shall be direct lenders with the ability to originate and service loans. All Participating Lender and broker participants must provide proof of Errors and Omission insurance. Direct Participating Lenders shall remain responsible for all submittals to the Agency to ensure that all aspects of the purchase and loan submittal meet all the Program requirements.

2. Participating Lenders shall make their best efforts to provide assistance to all Program Applicant(s) with minimal inconvenience to the borrower.

3. Participating Lenders are encouraged to provide office staff personnel with the ability to communicate in Spanish.

4. Applicants are responsible for ensuring that any application materials submitted by the Lender on Applicant's behalf are in compliance with the Program Guidelines.

5. Participating Lenders should demonstrate a commitment to affirmative marketing.

B. Lender procedures

In order for the Agency to determine whether an Applicant(s) qualifies for assistance through the Program, the Participating Lender and/or Applicant must submit the following as soon as possible in order for the Agency to determine eligibility and issue a commitment letter of funds or a rejection letter:

1. Copy of the "full lender package", with all documentation used to qualify the Applicant(s) for the first mortgage loan including but not limited to the following:

a. 1003 or other Uniform Residential Loan application with Applicant(s) signatures,

b. 1008 Uniform Underwriting and Transmittal Summary, or equivalent, with approved Loan Officer and Underwriter signatures,

c. Employment and income verifications,

- d. Previous three (3) years signed federal income tax returns
with all schedules,
- e. Proof, source, verification, and amount of down payment,
- f. Credit report(s) and or summary of credit,
- g. Property Inspection Report (when available),
- h. Appraisal (when available),
- i. Purchase and Sales Agreement, at time of purchase offer,
with an addendum to Purchase and Sale Agreement, if applicable
- j. Escrow Instructions and all amendments/conditions, at time
of purchase offer,
- k. Preliminary Title Report, at time of purchase offer
2. Any other supporting documentation used to qualify the
Applicant(s) that may be relevant to the determination of their income, etc (i.e., letters of
explanation, etc.)
3. The "Applicant Affidavit" form completed and signed by the
Applicant(s).
4. A copy of the Certificate of Completion for any HUD approved first
time home buyer seminar.
5. Submittal of the Property Inspection Report by a certified property
inspector. The property inspection report must be accepted by the Agency prior to any
commitment of funds. Failure to provide a property inspection report or an inadequate
report may result in a rejection of the application.
6. Proof of income for any household member 18 years of age or
older (regardless of who will be named on the loan).
7. The Agency will review the loan application and provide a response
to the lender and/or Applicant in 10-20 working days. Incomplete packages will be
returned to the lender and/or Applicant. Submittal of the lender's package does not
guarantee approval of Applicants(s) or a commitment of funds from the Agency. The
Agency reserves the right to make the final determination as to an Applicant's eligibility
for receiving assistance through the Program.
8. Once any and all questions have been addressed to the Agency's
satisfaction, the Agency will issue a commitment letter, as long as funds are available,
to the Applicant(s) stating that they are eligible for assistance through the Program. The
commitment letter will be good for 90 days; failure to enter into a purchase/sale contract

for a home within that time will result in termination of the commitment. The Agency at its discretion may provide one 30 day extension upon written request by the Applicant and submittal of a letter from their real estate agent stating that Applicant has been actively submitting offers. If Applicant fails to enter into a purchase/sale contract for a home within the extension period the commitment will expire. The lender would have to submit a new loan package for that Applicant(s) and restart the process.

9. Ineligible Applicant(s) will be issued written notification stating why the Applicant(s) is not eligible.

X. PENALTIES

Strict penalties may be imposed on any Applicant(s) or Participating Lender making a material misstatement, misrepresentation or committing a fraudulent act on documents submitted to purchase a housing unit through the Program. Any Applicants(s), person(s) or Participating Lender(s) making a negligent or fraudulent material misstatement or misrepresentation in any affidavit or certification made in connection with the application for or the issuance of a down payment assistance loan shall be subject to all Agency, State, and Federal applicable fines and penalties. The Agency's second mortgage shall be immediately due and payable and the Lender will be immediately removed from the Participating Lender List.

XI. GRIEVANCE PROCEDURE

Appeals by any Applicant(s) or other person who believes their interest is or has been adversely affected by any determination or requirement of the Program and or Agency staff in regards to the rules and requirements of the Program may appeal to the Agency Executive Director or his/her designee. The appeal must prove that the guidelines, rules and regulations of the Program are not being met, or are arbitrary or capricious, or that these rules and regulations are being capriciously or not properly applied. Such appeal must be submitted in writing to the Agency Executive Director or his/her designee within five (5) business days from receipt of a loan denial letter from the Agency. The Agency Executive Director or his/her designee will respond within fifteen (15) business days and their determination shall be final.