

**HOMEBUYER ASSISTANCE STUDY**

*Prepared for*

**County of Monterey**

*Prepared by*

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## **Introduction**

Keyser Marston Associates, Inc. (KMA) has undertaken an assessment of Monterey County's First Time Homebuyer Assistance (FTHB) Program in order to update the program to reflect current demographic and market conditions in the County. The market and demographic data used in the update of the FTHB program can also be used in designing the new Neighborhood Stabilization Program (NSP) homebuyer assistance program. The NSP program will be used until the federal NSP funds are exhausted. The FTHB program is a permanent program that will continue to seek funding from a variety of local and state funding programs. The following are the primary goals of this assessment:

1. To evaluate current market rate home prices in various sub-markets of Monterey County, particularly in light of the downturn in the residential real estate market;
2. To update the affordability gaps between affordable sale prices and market rate sale prices based on current market conditions;
3. To evaluate the demographic profiles of potential first-time homebuyers living in various sub-areas of Monterey County in order to determine how the homebuyer programs can be designed to best address the particular housing needs of residents in these sub-areas;
4. To survey available funding programs that the County may utilize to fund the FTHB program as well as programs that provide assistance directly to homebuyers; and
5. To make recommendations regarding the design/redesign of the homebuyer programs based on the conclusions drawn from this assessment.

## **Key Findings and Recommendations**

### *A. Key Findings*

1. Median home prices in Monterey County have declined to a point where they are affordable to Moderate income households (earning up to 120% of AMI) of all sizes in the South County and Salinas sub-areas; there remain Moderate income affordability gaps for the larger units in the North County and Marina/Seaside/Ft. Ord sub-areas and very sizable gaps for all unit sizes in the Peninsula sub-area (see the following Table 1);
2. Median home prices remain unaffordable to Low income households (earning up to 80% of AMI) throughout the County except for the smaller units in the South County and Salinas sub-areas;

3. The affordability gaps vary considerably from one part of the County to another, with the lowest affordability gaps existing in the South County sub-area and the highest gaps in the Peninsula sub-area; from a practical point of view it is cost prohibitive for the County's homebuyer programs to make median priced homes affordable to both Low and Moderate income households in the Peninsula sub-area;
4. The Area Median Income (AMI) is a county-wide standard and does not vary from one part of the County to another; however there is a large disparity of median incomes among the sub-areas. The South County and Marina/Seaside/Ft. Ord sub-areas have medians that are below the county-wide median and the other sub-areas are above the county-wide median (see Table 9). For this reason, the affordability gaps that are calculated based on the county-wide median are actually larger for residents of these two sub-areas. The affordability gaps for households in these sub-areas could be calculated and utilized as alternative loan limits to those described in this report. However, such alternative loan limits would make implementation of the program and the process for regularly updating the loan limits somewhat more complex.
5. The demographic group that is most likely to participate in the homebuyer programs is Low and Moderate income renter households under the age of 55 (available data does not break down age groups under age 55); the largest numbers of these households reside in the Salinas sub-area.
6. There are a number of State funding sources that are available to fund the County's FTHB program. These include HOME, CalHome, BEGIN, and the Joe Serna Farmworker program.

#### *B. Recommendations*

1. KMA recommends that the County adopt separate standard loan limits for Low income and Moderate income borrowers;
2. Given the reduction in median home prices in Monterey County, the affordability gaps have been reduced since the peaks of the housing market and we recommend that the County update its standard loan limits to reflect the lower affordability gaps. If the County desires to set loan limits for each sub-area of the County, the following are the recommended limits, which are based on the calculated affordability gaps:

Table 1  
Affordability Gaps by Sub-Area /  
Recommended Standard Loan Limits if based on Sub-Areas  
Monterey County Homebuyer Assistance Study

	Sub-Areas of the Homebuyer Assistance Study				
	South County	Salinas	North County	Marina/Seaside/ Ft. Ord	Peninsula
<u>Low Income</u>					
1-bedroom	-	-	\$4,000	\$19,000	\$276,000
2-bedroom	-	\$3,000	\$64,000	\$89,000	\$459,000
3-bedroom	\$15,000	\$64,000	\$153,000	\$199,000	\$684,000
4-bedroom+	\$46,000	\$112,000	\$186,000	\$256,000	\$966,000
<u>Moderate Income</u>					
1-bedroom	-	-	-	-	\$147,000
2-bedroom	-	-	-	-	\$314,000
3-bedroom	-	-	-	\$38,000	\$523,000
4-bedroom+	-	-	\$12,000	\$82,000	\$792,000

Note: If HOME funds are utilized, a separate total loan limit applies ranging from \$147,250 for a one-bedroom unit to \$254,270 for a four-bedroom unit.

3. If the County desires to continue to have loan limits consistent throughout the County (not by sub-area), we have calculated the affordability gaps for the whole County except the Peninsula sub-area. The Peninsula sub-area has been excluded from this calculation due to the extraordinarily high affordability gaps in the Peninsula relative to the other sub-areas in the County. As the table indicates, there are no affordability gaps for Moderate income homebuyers to purchase median priced homes in Monterey County when home prices in the Peninsula sub-area are excluded. The County could continue to use higher "Exception" loan limits (currently set at HUD 221(d)(3) limits) on a case by case basis as is the County's practice with the current FTHB program.

Table 2  
Countywide Affordability Gaps excluding Peninsula Sub-Area /  
Recommended Standard Loan Limits if not based on Sub-Areas  
Monterey County Homebuyer Assistance Study

Home Size	Recommended Limits		Current County FTHB Standard Loan Limits (Low Income)
	Low Income	Moderate Income	
1-bedroom	-	-	\$60,000
2-bedroom	\$9,000	-	\$85,000
3-bedroom	\$64,000	-	\$98,000
4-bedroom	\$86,000	-	\$100,000

Note: The affordability gaps for the whole county including the Peninsula sub-area are shown on the bottom of Table 8.

4. For the FTHB Program, the County will likely be seeking funding from State funding programs as well as possibly utilizing local sources such as Redevelopment funding and Inclusionary Housing in-lieu fees, and the guidelines for the FTHB program should remain flexible with respect to its various criteria to allow for the use of funding from a variety of sources. As one example, the County's Inclusionary Housing program requires resale to an income-qualified buyer while the FTHB program does not. As another example, the term of affordability under Redevelopment is 45 years while the term of affordability under the Inclusionary Housing program is perpetuity.
5. Because the median incomes in the South County and Marina/Seaside/Ft. Ord sub-areas are below the county-wide AMI, the County could consider utilizing higher loan limits for residents of these areas.
6. We recommend that the County seek funding from State funding sources including HOME, CalHome, BEGIN, and the Joe Serna Farmworker program. According to HCD, these programs will be funded in 2010 and they appear to be good candidates to be used to fund the FTHB program. These programs offer assistance of up to \$80,000, \$60,000, \$30,000 and \$70,000 per unit.
7. Given the fact that some of the recommended loan limits (either by the sub-area or the county-wide approach) exceed the loan limits set by HOME, CalHome, BEGIN, and the Joe Serna program, we recommend the County combine, or "layer", these programs in order to make the down payment assistance high enough to serve a wider range of potential homebuyers.

## **Background**

Monterey County's FTHB program has been in existence for many years but has not been funded for the last several years due to the exhaustion of prior State funding and/or prioritization of local funding to other activities. The County intends to seek funding in the near future from State sources. In addition, federal Neighborhood Stabilization Program (NSP) funds are separately funding an NSP homebuyer assistance program. The County hopes to use the current market and demographic analysis to help set some of the criteria for this new program. One difference with the FTHB program is that the NSP homebuyer program is not specifically for first-time homebuyers. However, it is anticipated that most homebuyers utilizing the NSP program will be first-time homebuyers due to its limitation to households earning no more than 120% of AMI.

During the last decade, Monterey County had experienced a significant escalation in home prices, one result of which is that homeownership had become unaffordable for many Low and Moderate income households. The County's FTHB was designed to help bridge the "affordability gap" between market rate home prices and what Low and Moderate income

households can afford to pay. One problem that the FTHB program confronted when the program was funded, particularly during the housing boom years, was that the maximum home price that was set by HOME funding sources was too low for Monterey County and homebuyers were unable to find homes priced below the HOME limits. Given the steep decline in home prices in Monterey County, the HOME price limits as well as the price limits for the other available funding sources (as discussed later in this report) do not appear to present an issue today, with the exception of the Peninsula sub-area, where median home prices for most unit sizes exceed the HOME limits.

The following are some of the key criteria under the existing FTHB program (for reference, the latest FTHB Program Manual is included in the appendix of this report):

1. Household income – Qualifying household income is limited to 80% to 120% of Area Median Income (AMI) depending on the funding source utilized;
2. Loan limits – Standard loan limits for Low income households range from \$50,000 for a studio unit to \$100,000 for a four-bedroom or larger unit, however the program does permit exceptions that allow the Housing Loan Committee to increase the loan limits up to maximum permitted by HOME program regulations (currently, from \$128,454 up to \$254,270 for studios up to four bedrooms); there are no specified loan limits currently for Moderate income households even though the current FTHB program can be used by Moderate income homebuyers if the funding sources permit;
3. Minimum homebuyer contribution – Homebuyers are required to contribute a 3% down payment; however exceptions may be considered by the Housing Loan Committee;
4. Loan terms – payments deferred for the first five years after which the borrower's ability to re-pay will be evaluated; term of the loan depends on funding program used; interest rate is 3% per year;
5. Resale restrictions – depends on the funding program used; resale to an income-qualified homebuyer is required through the County's Inclusionary Housing and Redevelopment programs but not through other programs that have been used to fund the FTHB program.

The loan limits in the current FTHB program apply throughout Monterey County even though there is a wide range of market home prices and resident incomes in the County. The County has requested that KMA assess these differences in order to determine if the FTHB program can be updated to better address the needs of residents in various sub-areas of the County. County staff identified five sub-areas for this assessment; each sub-area consists of one or more of the County's existing Planning Areas. These five sub-areas, their corresponding County Planning Areas and incorporated cities, are as follows (see also the attached map):

Table 3  
Sub-Areas for Homebuyer Assistance Study

Sub-Area	County Planning Areas Included	Incorporated Cities within Sub-Area
1. North County	North County PA	None
2. Salinas Area	Greater Salinas and Toro PA's	- Salinas
3. South County	Central Salinas Valley and South County PA's	- Gonzales - Greenfield - King City - Soledad
4. Peninsula	Coast and Cachagua PA's and a portion of the Greater Monterey Peninsula PA	- Carmel-by-the-Sea - Del Rey Oaks - Monterey - Pacific Grove - Sand City
5. Marina/Seaside/Ft. Ord	Portion of the Greater Monterey Peninsula PA (cities of Marina and Seaside and the former Ft. Ord)	- Marina - Seaside

While the County's FTHB program must be used to purchase a home in the unincorporated areas of the county, the potential homebuyers can come from throughout the county, both in unincorporated areas and incorporated cities, and there is no preference or targeting to residents of the unincorporated areas. Therefore, KMA's analysis of the demographics included all residents in the county. It should be noted that due to the way NSP funds were allocated in Monterey County, the NSP 1 homebuyer program will be serving the unincorporated areas as well as six incorporated cities in the County – Marina, Seaside, King City, Greenfield, Soledad, and Gonzales.

In terms of methodology, KMA collected both demographic and market data by census tracts. The boundaries of the five sub-areas correspond roughly but not exactly with the boundaries of an assemblage of census tracts<sup>1</sup>. These disparities are minimal, however, and do not detract from the overall conclusions drawn from this analysis.

### Market Rate Sales Prices

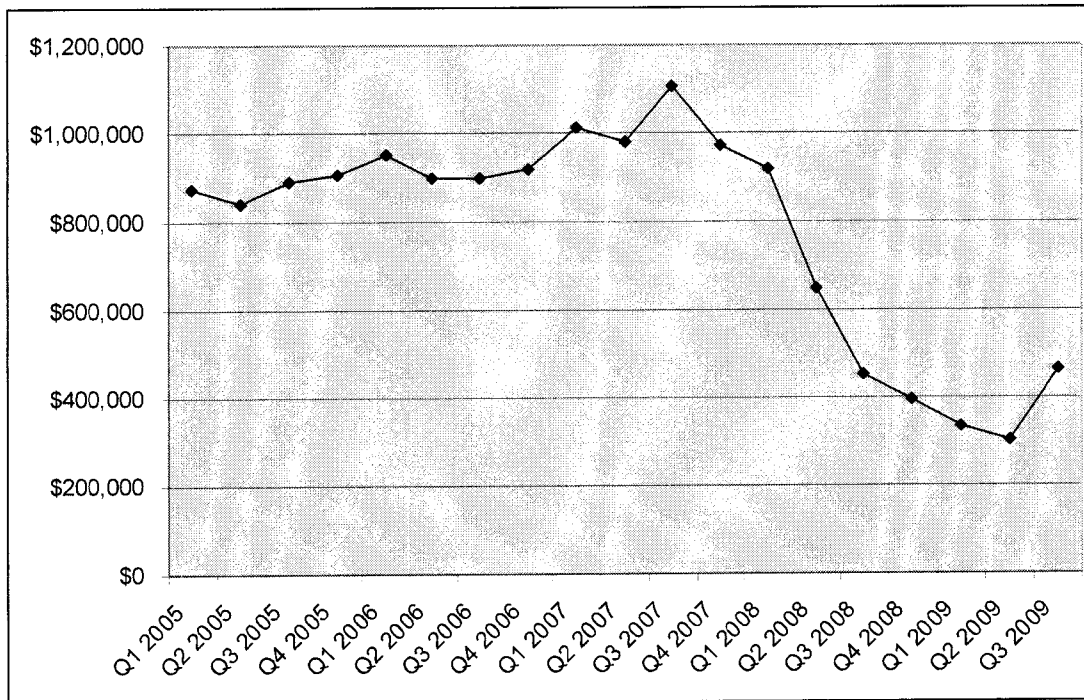
Overall, home prices in Monterey County have experienced a steep decline in the last several years. According to the California Association of Realtors, the median sale price of all homes in Monterey County (condominiums and single family homes) declined from \$310,000 to \$210,000 in the 12-month period from July 2008 to July 2009; and according to the Monterey County

<sup>1</sup> The single exception is the Cachagua Planning Area, which is essentially split by one larger census tract shared with the Central Salinas Valley Planning Area and one larger census tract shared with the Coast and Greater Monterey Peninsula Planning Areas.



Association of Realtors, the average single family home price in Monterey County peaked at \$1.1 million in the third quarter of 2007 and declined to \$465,000 in the third quarter of 2009.

Table 4  
Average Single Family Home Price  
Monterey County



Source: Monterey County Association of Realtors

The decline in median and average home prices is partly a reflection of the large number of foreclosed homes in Monterey County and homes sold under the threat of foreclosure. In 2008, 3,875 homes were foreclosed upon in Monterey County compared to 893 in 2007. Foreclosure rates in parts of Monterey County rank as some of the highest in the country. The sub-areas of the County with the highest rates of Notices of Default (the first step in the foreclosure process) were in the South County and Salinas sub-areas and the sub-area with the lowest rate was the Peninsula. As shown on Table 5 below, there is a correlation between home price and foreclosure rate.

KMA analyzed market rate sale prices for all homes sold in Monterey County within the 12-month period starting October 1, 2008 and ending September 30, 2009. The 12-month period was chosen in order to have a large enough set of sales data for statistically significant results, particularly when the data is broken down to the sub-area level. There were approximately

4,900 homes sold within this time period<sup>2</sup>. The median prices of all homes sold within each sub-area were as follows (lowest to highest):

Table 5  
Monterey County Median Home Prices  
October 1, 2008 to September 30, 2009

Sub-Area	Homes Sold	Median Home Price (all unit sizes)	Rate of Notices of Default (% of total units)
South County	1,051	\$160,000	6.4%
Salinas Area	2,636	\$199,000	4.6%
North County	145	\$246,000	1.7%
Marina/Seaside/Ft. Ord	481	\$315,000	2.2%
Peninsula	629	\$710,000	1.2%
County-wide	4,942	\$217,000	3.2%

Source: Dataquick

The majority of homes sold in Monterey County in this period were three- and four-bedroom homes and there was not a statistically significant number of studio or one-bedroom unit sales. The average number of bedrooms among the homes sold was 3.2 county-wide, with the largest homes sold in the South County sub-area (at 3.6 bedrooms) and the smallest in the Peninsula and North County sub-areas (at 2.7 and 2.6 bedrooms respectively). The average “year built” of homes sold was 1977 county-wide, with the newest homes sold in the South County sub-area (1990) and the oldest in the Peninsula sub-area (1963). For additional detail, see Appendix 1.

Overall, the single family residential market has improved in Monterey County since the early part of 2009. Statistics from the Monterey County Association of Realtors indicates that between the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2009, inventories of homes on the market have decreased, average days-on-market before homes sold is down, and the average sale price is up. On a national level, real estate experts generally predict that the market will remain soft in 2010 and that the recovery will be slow. At least three factors going forward will play a role in the overall pace of the recovery: (1) the willingness of the federal government to continue to extend current federal homebuyer tax credits and ability to continue to keep mortgage interest rates low; (2) the extent to which current Alt-A and Option ARM mortgages lead to a second bout of foreclosures; and (3) the speed at which the overall economy and employment improves.

### Maximum 2009 Affordable Sale Prices

The following are the maximum qualifying incomes for Low income and Moderate income households in Monterey County:

<sup>2</sup> A small number of sales were not included in the analysis because complete information was not reported by Dataquick (location, unit size, etc.).

Table 6  
2009 Maximum Qualifying Incomes for Affordable Housing  
Monterey County

	Household Size			
	2-Person	3-Person	4-Person	5-Person
2009 Area Median Income – Monterey County	\$53,850	\$60,550	\$67,300	\$72,700
<u>Low Income</u> (51% to 80% of AMI)	\$43,080	\$48,440	\$53,840	\$58,160
<u>Moderate Income</u> (81% to 120% of AMI)	\$64,620	\$72,660	\$80,760	\$87,240

Source: California HCD

In terms of calculating the supportable affordable home prices, the California Health and Safety Code Section 50052.5 specifies that the sale price for a Low income household be set assuming a housing expense of 30% of 70% of AMI, adjusted for household size, and for a Moderate income household, 35% of 110% of AMI. Housing expense includes mortgage payments as well as property taxes, utilities, insurance, etc. The following are some of the key assumptions utilized in the affordable price calculations:

1. Down payment at 3.5% of the sale price – this assumption was based on requirements of FHA financing;
2. Mortgage interest rate at 5.5% fixed rate for 30 years based on FHA financing<sup>3</sup>;
3. Property taxes at 1.2% of the market rate home price – this is the 1% base property tax plus an assumption for additional assessments applicable to the average home throughout the County;
4. HOA/insurance/utilities ranging from \$200 per month for a one-bedroom up to \$275 per month for a 4-bedroom home – these expenses can vary significantly from one residential development to another (this is an assumption of the expense for the *average* home in the County);
5. Mortgage Insurance at 0.5% of mortgage amount – this assumption is based on FHA mortgage requirements

It should be noted that the FTHB program and the County's Inclusionary Housing program have different restrictions on re-sale of homes, which influences the underwriting assumptions. Under the FTHB program, homebuyers can re-sell their home for an unrestricted market price. The County works with potential homebuyers to maximize the first mortgage amount given current interest rates, which are in the range of 5.5%, in order to minimize the amount of FTHB

<sup>3</sup> KMA interviews of mortgage brokers with Bank of America and Wells Fargo indicated that FHA is the most commonly used financing for Low and Moderate income buyers due to the low down payment requirement of 3.5% and FICO score requirements that are more lenient than other funding programs such as through CalHFA.

assistance. The County's Inclusionary program requires re-sale to another income-qualified homebuyer and calculates the affordable home price based on a pre-determined 7.5% interest rate. The 7.5% interest rate provides a "buffer" that reduces the risk that an Inclusionary Housing homeowner would have to sell the home for a lower price than they paid due to rising mortgage interest rates.

Based on the assumptions described above, the 2009 affordable home prices are as follows (see Appendix 3 and Appendix 4 for additional detail):

Table 7  
Affordable Home Prices

Unit Size	Low Income	Moderate Income
1-bedroom	\$104,000	\$233,000
2-bedroom	\$116,000	\$261,000
3-bedroom	\$126,000	\$287,000
4-bedroom	\$134,000	\$308,000

Source: Estimated by KMA

Since the affordable prices are determined based on the county-wide AMI, the above-prices apply to all sub-areas of the County regardless of the actual median incomes within each sub-area. As mentioned previously, however, the County could consider raising the loan limits to residents of the South County and Marina/Seaside/Ft. Ord sub-areas based on the actual estimated medians in those sub-areas because they are below the county-wide median.

### **Affordability Gap Analysis**

An affordability gap exists when market rate home prices exceed the affordable sale prices. Based on the median market rate price and affordable sale prices, the following table summarizes the affordability gap for one-, two-, three-, and four-bedroom units (see Appendix 5 and Appendix 6 for complete detail)<sup>4</sup>:

<sup>4</sup> Due to the limited number of one-bedroom unit sales in certain sub-areas, KMA estimated the one-bedroom median prices in certain sub-areas for purposes of the gap calculation.

Table 8  
Affordability Gaps (lowest to highest)

Sub-Area	1-bedroom	2-bedroom	3-bedroom	4-bedroom
<u>South County</u>				
Low Income	No gap	No gap	\$15,000	\$46,000
Moderate Income	No gap	No gap	No gap	No gap
<u>Salinas</u>				
Low Income	No gap	\$3,000	\$64,000	\$112,000
Moderate Income	No gap	No gap	No gap	No gap
<u>North County</u>				
Low Income	\$4,000	\$64,000	\$153,000	\$186,000
Moderate Income	No gap	No gap	No gap	\$12,000
<u>Marina/Seaside/Ft. Ord</u>				
Low Income	\$19,000	\$89,000	\$199,000	\$256,000
Moderate Income	No gap	No gap	\$38,000	\$82,000
<u>Peninsula</u>				
Low Income	\$276,000	\$459,000	\$684,000	\$966,000
Moderate Income	\$147,000	\$314,000	\$523,000	\$792,000
<u>County-wide</u>				
Low Income	\$36,000	\$44,000	\$81,000	\$92,000
Moderate Income	No gap	No gap	No gap	No gap

Source: Estimated by KMA

Where there is an affordability gap shown in the table above, additional financial assistance will be needed in order for the median priced home to be made affordable to Low and Moderate income households. As shown, the median priced home is already affordable to Moderate income households in the South County and Salinas sub-areas in all home sizes and in the smaller home sizes in the North County and Marina/Seaside/Ft. Ord sub-areas. There remains an affordability gap for Low income households throughout the County except for the smaller units in the South County and Salinas sub-areas. In the Peninsula sub-area, median home prices continue to be so high that the affordability gap even for Moderate income households is very high. From a practical point of view, it is cost-prohibitive for the County's homebuyer programs to afford to close the affordability gaps that exist for median priced homes in the Peninsula sub-area.

### Demographic Profiles

KMA reviewed some of the key demographic characteristics of each of the five sub-areas. Inclusive of all incorporated cities in the County, the most populous sub-area by a wide margin is the Salinas sub-area. The largest average household size is in the South County sub-area and the smallest is the Peninsula sub-area. Conversely, the Peninsula sub-area has the highest incomes and the South County sub-area the lowest.

Table 9  
Summary 2009 Demographic Characteristics of County Sub-Areas  
Monterey County (including all cities)

	Monterey County	North County	Salinas Area	South County	Peninsula	Marina/Seaside/Ft. Ord
Population	417,125	35,310	180,081	65,929	74,687	61,118
Avg. HH Size	3.19	3.68	3.61	4.22	2.10	2.99
Median HH Income <sup>(1)</sup>	\$59,867	\$66,098	\$59,798	\$50,358	\$68,101	\$51,019
Avg. HH Income	\$78,665	\$82,389	\$75,805	\$63,069	\$97,570	\$62,030
Per Capita Income	\$24,269	\$22,401	\$20,603	\$15,203	\$45,139	\$20,429

<sup>(1)</sup> Median household income for all household sizes. KMA estimates that, adjusted for household size, the Salinas and Marina/Seaside/Ft. Ord sub-area medians are below the countywide medians.

Source: Claritas. Note: due to differing source data and methodologies (for example, how part-time residents are counted), Claritas projections differ somewhat from those of the California Department of Finance.

Since the FTHB program is for first-time homebuyers, we have focused on the demographics of current renter households in Monterey County. Approximately 44% of households are renters and 56% are owners.

KMA also used the demographic data reported by Claritas and Ribbon Demographics to isolate the age group most likely to participate in the County's FTHB program – current renters under the age of 55 (the Claritas and Ribbon Demographics data do not further break down age groups under 55). We then utilized household income data for each sub-area to estimate the number of renter households under age 55 in the Low and Moderate income categories. Given that the NSP funds are targeted to households up to 120% of AMI and the availability of other funding programs targeted to households at both 120% of AMI and 80% of AMI, we believe that it makes sense for the FTHB to continue to target these two income groups, although as this analysis has indicated, there is no affordability gap for Moderate income homebuyers in the South County or Salinas sub-areas. As a matter of public policy, the County could choose to serve Very Low income households as well, however this would require significantly larger amounts of financial assistance for each household served in order to make homeownership affordable to this income group.

It is estimated that there are 9,553 renter households under age 55 that fall within the 51% to 80% of AMI category county-wide, which represents 22% of the total. There are 7,138 households in the 81% to 120% of AMI category representing 17% of the total (see Appendix 9 for additional detail). Since the County's FTHB program is available to all residents of Monterey County, the demographics analyzed in this study have been of the entire County population.

Table 10  
2009 Renter Households under Age 55  
Monterey County (including all cities)

% of AMI	County-wide	North County	Salinas Area	South County	Peninsula	Marina/ Seaside/ Ft. Ord
51% to 80%	9,553	496	3,871	1,350	1,782	2,054
81% to 120%	7,138	401	2,408	849	1,801	1,679
Other income categories	25,962	1,457	9,836	3,410	6,333	4,926
Total	42,653	2,354	16,115	5,609	9,916	8,659

Source: Ribbon Demographics, KMA

The largest numbers of potential homebuyers reside in the Salinas sub-area and the North County sub-area contains the smallest. Of course, for a variety of reasons not all of these renter households would be eligible to or would choose to purchase a home even if financial assistance were available to them.

### **Mortgage Availability**

KMA analyzed mortgage financing availability for lower income households in order to assess the challenges that financing presents for these households. Interviews with mortgage lenders specializing in CalHFA and FHA financing indicate that Low and Moderate income households often have difficulty obtaining conventional mortgage financing because they cannot make the necessary down payment amounts of 10% to 20% of the purchase price. As a result, most Low and Moderate income homebuyers seek mortgage financing from FHA through FHA's 203(b) single family housing program which requires down payments of just 3.5% of the purchase price, or from CalHFA. However, because the credit requirements for CalHFA financing are difficult to achieve for most Low and Moderate income homebuyers (minimum FICO score of 680 to 720), most homebuyers in these income brackets rely on FHA financing (minimum FICO score of 620). We believe it is appropriate to increase the current requirement that homebuyers contribute 3% toward the down payment to 3.5% based on the feedback from lenders.

Review of mortgage approval rates made available through the Home Mortgage Disclosure Act indicate that in 2008 approximately 25% of applicants were denied conventional home mortgage loans county-wide. In regard to the five sub-areas, the highest rates of denials were in the North County, South County, and Salinas sub-areas (all at about 30%) and the lowest in the Marina/Seaside/Ft. Ord and Peninsula sub-areas (less than 20%). This data indicates that households in the former three sub-areas have more difficulty qualifying for conventional loans than do households in the latter two sub-areas.

### **Homeownership Funding Programs**

KMA reviewed available funding programs for homeownership projects in order to assess those programs that might be used both to fund the FTHB program and programs that provide assistance directly to homebuyers. KMA reviewed programs available from the California

Department of Housing and Community Development (HCD), the California Housing Finance Agency (CalHFA), the Federal Home Loan Bank (FHLB), and the United States Department of Agriculture (USDA).

Based on our review, we have deemed the programs listed below to be the best candidates to be used with the County's FTHB program primarily because they are programs that are either currently funded or expect to be funded later in 2010. We have not listed the programs that offer first mortgages to homebuyers; however a summary of all the funding programs we reviewed is included in Appendix 11.

The programs listed below can be divided into programs that provide funding to local public agencies to fund their affordable homebuyer programs and programs that provide funding directly to homebuyers. Each of these programs is targeted to Low or Moderate income households.

#### A. Programs providing funding to public agencies

1. Neighborhood Stabilization Program (NSP)(HCD) – grants to purchase, rehab, and sell foreclosed homes and provide gap financing; up to 120% of AMI; up to \$50,000 loan per unit; purchase price up to 99% of appraised value; term of 5-15 years depending on the amount of NSP funds per unit; no interest.
2. HOME Investment Partnerships – assistance for acquisition, rehabilitation, and new construction of single-family and multifamily projects and first time homebuyer programs; up to 80% of AMI; purchase price up to \$399,000; up to \$80,000 loan per unit; minimum affordability period of 5-15 years depending on the amount of HOME funds per unit; \$2 million funding limit per year.
3. CalHome (HCD) – grants to localities or non-profit developers for deferred payment down payment assistance loans; up to 80% of AMI; up to \$60,000 loan per unit; purchase price up to 100% of median single family home price in the city or county; 30-year loan term; simple annual interest up to 3%; \$900,000 funding limit per year.
4. BEGIN (HCD) – grants to localities for deferred payment down payment assistance loans in newly constructed projects; up to 120% of AMI; up to \$30,000 loan per unit; purchase price up to 100% of median single family home price in city or county; 30-year loan term; simple annual interest at 1-3%; funding limit based on the number of units in the proposed project per year.
5. Joe Serna Farmworker program (HCD) – grants for rehab or new construction, rolled into assistance to homebuyers; preference up to 80% of AMI; up to \$70,000 loan per unit; matching share from federal, state, local, or private sources required equal to 100%



of the requested funds; purchase price up to 100% of appraised value; 20-year term; no interest; \$1,500,000 funding limit per year.

B. Programs providing funding directly to homebuyers

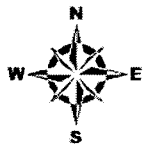
1. CA Homebuyers' Down Payment Assistance Program (CHDAP)(CalHFA) – deferred payment junior (subordinate) loan; up to 120% of AMI; loan per unit up to 3% of purchase price or appraised value; 3.25% current interest rate.






KMA also investigated the WISH and IDEA programs offered through the Federal Home Loan Bank. These are down payment assistance programs available to low income homebuyers providing grants up to \$15,000. These funds are available only through member financial institutions of the Federal Home Loan Bank, however, and none of the member institutions in Monterey or Santa Cruz counties are currently participating in the WISH or IDEA programs. In addition, lenders who do offer the program often restrict the WISH and IDEA funds to people who live within close proximity to the lender and/or those who also obtain first mortgage financing through them. Therefore, it is not likely that the WISH and IDEA programs will be utilized in any significant way by Monterey County residents at this time.

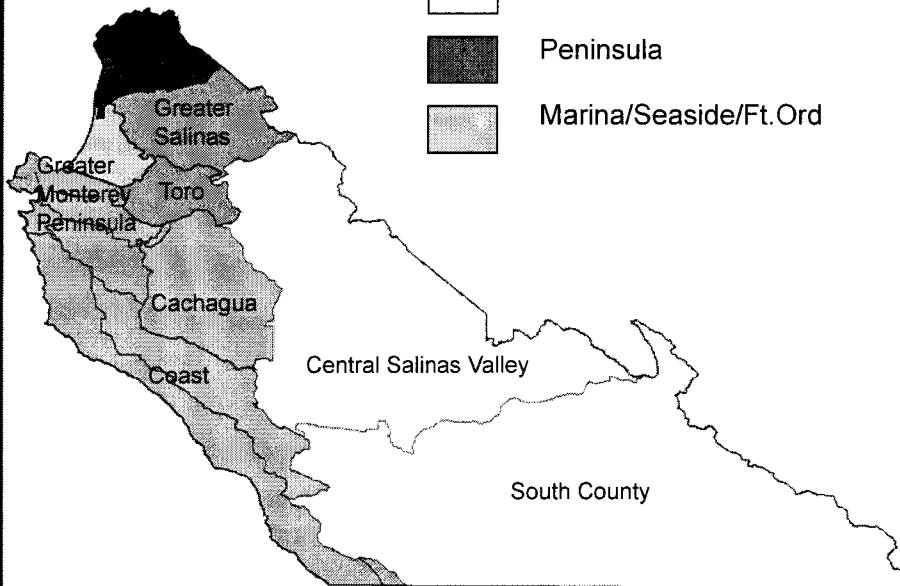
### **Future Program Updates**

With regard to future updates, the affordable home pricing, market rate pricing, and affordability gaps should be updated periodically to reflect changes in market conditions, along with the homebuyer program loan limits. Median home prices can be obtained from Dataquick or other market data sources. The records can be organized by sub-area by sorting the census tracts identified for each sub-area (a listing of census tracts is included in Appendix 10). Updates of the median home prices by sub-area will allow the loan limits to reflect the affordability gaps based on the most current market information.

# Monterey County Subareas



-  North County
-  Salinas
-  South County
-  Peninsula
-  Marina/Seaside/Ft.Ord



0 5 10 20 30 40 Miles

Appendix 1.  
 Summary of Home Sales Data - October 1, 2008 to September 30, 2009  
 Homebuyer Assistance Study  
 Monterey County

	Homebuyer Assistance Study Sub-Areas					Marina/Seaside/ Ft. Ord
	Monterey County	North County	Salinas Area	South County	Peninsula	
Number of Sales	4,942 100%	145 3%	2,636 53%	1,051 21%	629 13%	481 10%
<u>Number of Sales</u>						
1-Bedroom	90	2	44	2	35	7
2-Bedroom	841	27	421	76	220	96
3-Bedroom	2,347	85	1,254	438	272	299
4-Bedroom	1,316	28	736	398	83	71
5+-Bedroom	348	3	181	137	19	8
	4,942	145	2,636	1,051	629	481
Average Bedrooms	3.2	2.6	3.2	3.6	2.7	3.0
Average Sq. Ft.	1,561	1,503	1,522	1,595	1,824	1,371
Average Year Built	1977	1973	1977	1990	1963	1968
Median Price (all home sizes)	\$217,000	\$246,000	\$199,000	\$160,000	\$710,000	\$315,000
<u>Median Price</u>						
1-Bedroom	\$140,000	Note <sup>(1)</sup>	\$65,000	Note <sup>(1)</sup>	\$380,000	Note <sup>(1)</sup>
2-Bedroom	\$160,000	\$180,000	\$118,500	\$76,000	\$575,000	\$205,000
3-Bedroom	\$207,000	\$278,500	\$190,000	\$141,000	\$810,000	\$325,000
4-Bedroom	\$226,000	\$320,000	\$246,000	\$180,000	\$1,100,000	\$390,000

Source: MDA Dataquick; only includes records with all data points shown in this table.

<sup>(1)</sup> There were not a sufficient number of studio and one-bedroom units in all sub-areas to calculate the median price for these unit sizes.

Appendix 2.  
 Notices of Default Recorded October 1, 2008 to September 30, 2009  
 Homebuyer Assistance Study  
 Monterey County

	Monterey County	Homebuyer Assistance Study Sub-Areas				
		North County	Salinas Area	South County	Peninsula	Marina/Seaside/ Ft. Ord
Total Housing Units	137,657	9,886	49,236	16,800	39,605	22,130
Notices of Default	4,456 3.2%	166 1.7%	2,261 4.6%	1,073 6.4%	471 1.2%	485 2.2%

Source: MDA Dataquick (notices of default); Claritas (total housing units).

Note: excludes records with no census tract reported

Appendix 3.  
Affordable Home Price Worksheet  
Homebuyer Assistance Study  
Monterey County

**LOW INCOME (COUNTY-WIDE AMI)**

	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
Assumed Household Size	2 person	3 person	4 person	5 person
100% AMI	\$53,850	\$60,550	\$67,300	\$72,700
Low Income - 70% of AMI	\$37,695	\$42,385	\$47,110	\$50,890
Available for Housing Costs @ 30%	\$11,309	\$12,716	\$14,133	\$15,267
(Less) Property Taxes	(\$1,680)	(\$1,920)	(\$2,484)	(\$2,712)
(Less) HOA/Insurance/Utilities	(\$2,400)	(\$2,700)	(\$3,000)	(\$3,300)
(Less) Mortgage Insurance	(\$495)	(\$555)	(\$590)	(\$635)
Income Available for Mortgage	\$6,734	\$7,541	\$8,059	\$8,620
Mortgage Amount	\$98,800	\$110,700	\$118,300	\$126,500
Down Payment	\$4,900	\$5,600	\$7,245	\$7,910
Supported Home Price	\$103,700	\$116,300	\$125,545	\$134,410
Rounded	\$104,000	\$116,000	\$126,000	\$134,000
<b>Key Assumptions</b>				
- Mortgage Interest Rate	5.5%	5.5%	5.5%	5.5%
- Down Payment (based on FHA)	3.5%	3.5%	3.5%	3.5%
- Property Taxes (% of sales price)	1.2%	1.2%	1.2%	1.2%
- HOA/Insurance/Utilities (per month)	\$200	\$225	\$250	\$275
- Annual Mortgage Insurance (% of loan amount; assumes FHA financing)	0.5%	0.5%	0.5%	0.5%

Appendix 4.  
 Affordable Home Price Worksheet  
 Homebuyer Assistance Study  
 Monterey County

**MODERATE INCOME (COUNTY-WIDE AMI)**

	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
Assumed Household Size	2 person	3 person	4 person	5 person
100% AMI	\$53,850	\$60,550	\$67,300	\$72,700
Moderate Income - 110% AMI	\$59,235	\$66,605	\$74,030	\$79,970
Available for Housing Costs @ 35%	\$20,732	\$23,312	\$25,911	\$27,990
(Less) Property Taxes	(\$1,680)	(\$1,920)	(\$2,484)	(\$2,712)
(Less) HOA/Insurance/Utilities	(\$2,400)	(\$2,700)	(\$3,000)	(\$3,300)
(Less) Mortgage Insurance	(\$1,140)	(\$1,275)	(\$1,395)	(\$1,500)
Income Available for Mortgage	\$15,512	\$17,417	\$19,032	\$20,478
Mortgage Amount	\$227,700	\$255,600	\$279,300	\$300,500
Down Payment	\$4,900	\$5,600	\$7,245	\$7,910
Supported Home Price	\$232,600	\$261,200	\$286,545	\$308,410
Rounded	\$233,000	\$261,000	\$287,000	\$308,000
<b><u>Key Assumptions</u></b>				
- Mortgage Interest Rate	5.5%	5.5%	5.5%	5.5%
- Down Payment (based on FHA)	3.5%	3.5%	3.5%	3.5%
- Property Taxes (% of sales price)	1.2%	1.2%	1.2%	1.2%
- HOA/Insurance/Utilities (per month)	\$200	\$225	\$250	\$275
- Annual Mortgage Insurance (% of loan amount; assumes FHA financing)	0.5%	0.5%	0.5%	0.5%

Appendix 5.  
Affordability Gap Calculations (lowest to highest)  
Homebuyer Assistance Study  
Monterey County

**WITH COUNTY-WIDE AMI**

	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
<b>I. South County</b>				
Median Market Price	\$46,000 <sup>(1)</sup>	\$76,000	\$141,000	\$180,000
(Less) Low Income Price	<u>(\$104,000)</u>	<u>(\$116,000)</u>	<u>(\$126,000)</u>	<u>(\$134,000)</u>
Difference/Affordability Gap	no gap	no gap	\$15,000	\$46,000
Median Market Price	\$46,000	\$76,000	\$141,000	\$180,000
(Less) Moderate Income Price	<u>(\$233,000)</u>	<u>(\$261,000)</u>	<u>(\$287,000)</u>	<u>(\$308,000)</u>
Difference/Affordability Gap	no gap	no gap	no gap	no gap
<b>II. Salinas Area</b>				
Median Market Price	\$65,000	\$119,000	\$190,000	\$246,000
(Less) Low Income Price	<u>(\$104,000)</u>	<u>(\$116,000)</u>	<u>(\$126,000)</u>	<u>(\$134,000)</u>
Difference/Affordability Gap	no gap	\$3,000	\$64,000	\$112,000
Median Market Price	\$65,000	\$119,000	\$190,000	\$246,000
(Less) Moderate Income Price	<u>(\$233,000)</u>	<u>(\$261,000)</u>	<u>(\$287,000)</u>	<u>(\$308,000)</u>
Difference/Affordability Gap	no gap	no gap	no gap	no gap
<b>III. North County</b>				
Median Market Price	\$108,000 <sup>(1)</sup>	\$180,000	\$279,000	\$320,000
(Less) Low Income Price	<u>(\$104,000)</u>	<u>(\$116,000)</u>	<u>(\$126,000)</u>	<u>(\$134,000)</u>
Difference/Affordability Gap	\$4,000	\$64,000	\$153,000	\$186,000
Median Market Price	\$108,000	\$180,000	\$279,000	\$320,000
(Less) Moderate Income Price	<u>(\$233,000)</u>	<u>(\$261,000)</u>	<u>(\$287,000)</u>	<u>(\$308,000)</u>
Difference/Affordability Gap	no gap	no gap	no gap	\$12,000
<b>IV. Marina/Seaside/Ft. Ord</b>				
Median Market Price	\$123,000 <sup>(1)</sup>	\$205,000	\$325,000	\$390,000
(Less) Low Income Price	<u>(\$104,000)</u>	<u>(\$116,000)</u>	<u>(\$126,000)</u>	<u>(\$134,000)</u>
Difference/Affordability Gap	\$19,000	\$89,000	\$199,000	\$256,000
Median Market Price	\$123,000	\$205,000	\$325,000	\$390,000
(Less) Moderate Income Price	<u>(\$233,000)</u>	<u>(\$261,000)</u>	<u>(\$287,000)</u>	<u>(\$308,000)</u>
Difference/Affordability Gap	no gap	no gap	\$38,000	\$82,000
<b>V. Peninsula</b>				
Median Market Price	\$380,000	\$575,000	\$810,000	\$1,100,000
(Less) Low Income Price	<u>(\$104,000)</u>	<u>(\$116,000)</u>	<u>(\$126,000)</u>	<u>(\$134,000)</u>
Difference/Affordability Gap	\$276,000	\$459,000	\$684,000	\$966,000
Median Market Price	\$380,000	\$575,000	\$810,000	\$1,100,000
(Less) Moderate Income Price	<u>(\$233,000)</u>	<u>(\$261,000)</u>	<u>(\$287,000)</u>	<u>(\$308,000)</u>
Difference/Affordability Gap	\$147,000	\$314,000	\$523,000	\$792,000
<b>Monterey County</b>				
Median Market Price	\$140,000	\$160,000	\$207,000	\$226,000
(Less) Low Income Price	<u>(\$104,000)</u>	<u>(\$116,000)</u>	<u>(\$126,000)</u>	<u>(\$134,000)</u>
Difference/Affordability Gap	\$36,000	\$44,000	\$81,000	\$92,000
Median Market Price	\$140,000	\$160,000	\$207,000	\$226,000
(Less) Moderate Income Price	<u>(\$233,000)</u>	<u>(\$261,000)</u>	<u>(\$287,000)</u>	<u>(\$308,000)</u>
Difference/Affordability Gap	no gap	no gap	no gap	no gap

<sup>(1)</sup> Due to the limited number of one-bedroom unit sales in the South County, North County, and Marina/Seaside/Ft. Ord sub-areas, for purposes of the affordability gap calculation the median market price of the one-bedroom units was estimated by KMA.

Appendix 6.  
 Summary of Affordability Gaps (lowest to highest)  
 Homebuyer Assistance Study  
 Monterey County

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	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
<b>I. South County</b>				
Low Income	no gap	no gap	\$15,000	\$46,000
Moderate Income	no gap	no gap	no gap	no gap
<b>II. Salinas Area</b>				
Low Income	no gap	\$3,000	\$64,000	\$112,000
Moderate Income	no gap	no gap	no gap	no gap
<b>III. North County</b>				
Low Income	\$4,000	\$64,000	\$153,000	\$186,000
Moderate Income	no gap	no gap	no gap	\$12,000
<b>IV. Marina/Seaside/Ft. Ord</b>				
Low Income	\$19,000	\$89,000	\$199,000	\$256,000
Moderate Income	no gap	no gap	\$38,000	\$82,000
<b>V. Peninsula</b>				
Low Income	\$276,000	\$459,000	\$684,000	\$966,000
Moderate Income	\$147,000	\$314,000	\$523,000	\$792,000
<b>Monterey County</b>				
Low Income	\$36,000	\$44,000	\$81,000	\$92,000
Moderate Income	no gap	no gap	no gap	no gap



Appendix 7.  
 Summary 2009 Demographic Data by Sub-Area  
 Monterey County  
 Homebuyer Assistance Study

**COUNTY-WIDE INCLUDING ALL CITIES AND UNINCORPORATED AREAS**

	Homebuyer Assistance Study Sub-Areas					Marina/Seaside/ Ft. Ord
	Monterey County	North County	Salinas Area	South County	Peninsula	
Population	417,125	35,310	180,081	65,929	74,687	61,118
Average HH Size	3.19	3.68	3.61	4.22	2.10	2.99
Median HH Income	\$59,867	\$66,098	\$59,798	\$50,358	\$68,101	\$51,019
Average HH Income	\$78,665	\$82,389	\$75,805	\$63,069	\$97,570	\$62,030
Per Capita Income	\$24,269	\$22,401	\$20,603	\$15,203	\$45,139	\$20,429

Source: Claritas. Note: due to differing source data and methodologies (for example, how part-time residents are counted), Claritas projections differ somewhat from those of the California Department of Finance.

Appendix 8.  
 2009 Housing Tenure  
 Monterey County  
 Homebuyer Assistance Study

	Homebuyer Assistance Study Sub-Areas						Marina/Seaside/ Ft. Ord
	Monterey County	North County	Salinas Area	South County	Peninsula		
Renter Households	54,877	2,823	20,218	6,805	14,935	10,096	56%
Owner Households	<u>68,980</u>	<u>6,718</u>	<u>26,571</u>	<u>8,757</u>	<u>18,983</u>	<u>7,951</u>	44%
Total	123,857	9,541	46,789	15,562	33,918	18,047	100%

Source: Ribbon Demographics

Appendix 9.  
 2009 Renter Households under age 55 by Affordability Level  
 Monterey County  
 Homebuyer Assistance Study

**COUNTY-WIDE INCLUDING ALL CITIES AND UNINCORPORATED AREAS**

Income Bracket	Homebuyer Assistance Study Sub-Areas					Marina/Seaside/ Ft. Ord
	North County	Salinas Area	South County	Peninsula		
Up to 50% of AMI	707	5,582	2,233	1,803	2,592	30%
51% to 80% of AMI	496	3,871	1,350	1,782	2,054	24%
81% to 120% of AMI	401	2,408	849	1,801	1,679	19%
Subtotal	1,604	11,861	4,432	5,386	6,325	73%
120% to 160% of AMI	255	1,473	494	1,092	958	11%
Over 160% of AMI	495	2,781	683	3,438	1,376	16%
Total	2,354	16,115	5,609	9,916	8,659	100%

Source: Ribbon Demographics, KMA

Appendix 10.  
 Census Tracts in Monterey County  
 Homebuyer Assistance Study

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Homebuyer Assistance Study Sub-Areas				
<u>North County</u>	<u>Salinas Area</u>	<u>South County</u>	<u>Peninsula</u>	<u>Marina/Seaside/ Ft. Ord</u>
10101*	101*	10801	11000*	13500
10102*	102	10802*	11500*	13600
10201*	103	10900	11600*	13700
10202*	104	11101	11700*	13800
10303*	200	11102	11800	13900
10304*	300	11201	11900*	14000
10305*	400	11202	12000	14101
10400*	500	11301	12100	14102
12301*	600	11302	12200	14103
	700	11400*	12302	14200
	800		12401	14301
	900		12402	14302
	1000		12500	
	1100		12600	
	1200		12700	
	1300		12800	
	1400		13000	
	1500		13100	
	1600		13200*	
	1700		13300	
	1800		13400	
	10302*			
	10501*			
	10503			
	10504			
	10602			
	10603			
	10604			
	10605			
	10606			
	10701*			
	10702*			

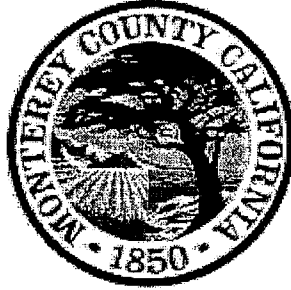
\* Census tracts that are in the unincorporated areas of the County.

Appendix 11  
Summary of Homeownership Funding Programs

Program	Status of Program	Loan Type	Max. Purchase Price	Loan Limits	Qualifying HH Income	Other Notes
Programs Providing Funding Directly to Public Agencies						
1	Neighborhood Stabilization Program (NSP) (HCD)	Implementation; Roll out in January 2010	Funding to purchase, rehab, and resell foreclosed homes and provide financing mechanism for gap	99% of appraised value	\$65,000/unit max: up to \$50,000/unit for financing and \$30,000/unit for rehab	Up to 120% of AMI
2	CallHome (HCD)	HCD expects funding in 2010	Grants to localities and non-profit developers to provide down payment assistance to first-time homebuyers, among other eligible activities	100% of the median sale price of single family home in the city or county	\$60,000/unit	Up to 80% of AMI
3	BEGIN (HCD)	HCD expects funding in 2010	Grants to localities to provide down payment assistance to first-time homebuyers for newly constructed projects	100% of the median sale price of single family home in the city or county	Lesser of 20% of home price or \$30,000/unit	Low and Moderate – up to 120% of AMI Localities must provide regulatory relief and development incentives
4	Joe Serna, Jr. Farmworker Housing Grant Program (HCD)	HCD expects funding in 2010	Finance the new construction, rehab, and acquisition of owner-occupied and rental units for agricultural workers	100% of appraised value	Based on the homebuyer's gap (gap remaining after down payment and all other loans), but no more than \$70,000/unit	Priority to lower income households Funds provided to public entity, non-profit, LLC, or partnership; all funds subsequently to be rolled over to homebuyers
5	HOME Investment Partnerships	Active	First-time homebuyer mortgage assistance or down payment assistance	Based on HUD 203(b) limits	Based on HUD 221(d)(3) limits	Up to 80% of AMI

Program	Status of Program	Loan Type	Max. Purchase Price	Loan Limits	Qualifying HH Income	Other Notes	
<b>Programs Providing Funding Directly to Homebuyers</b>							
1	CA Homebuyers' Down Payment Assistance Program (CHDAP) (CalHFA)	Active	Deferred payment junior loan for first-time homebuyers		Up to 3% of purchase price or appraised value, whichever is less	Up to 120% of AMI	Can be used for down payment or closing costs; current interest rate is 3.25%
2	Affordable Housing Partnership Program (AHPP) (CalHFA)	Active	Allows first-time homebuyers to combine a CalHFA first mortgage with down payment assistance from the local AHPP partner	\$637,645 to \$779,344 for re-sale homes	If CalHFA subordinate loan is used borrower must contribute a minimum of 3% of purchase price or appraised value of borrower's own funds	Up to 120% of AMI	Monterey County is a participating AHPP partner through its inclusionary housing program
3	Cal30 (CalHFA)	Active	Conventional first mortgage loan program for first-time homebuyers	\$637,645 to \$779,344 for re-sale homes	Up to 95%	Up to 120% of AMI	Requires higher FICO scores than FHA; current interest rate is 5.25%
4	SMART Loan Program (CalHFA)	Active	Conventional first mortgage loan program for first-time homebuyers of designated CalHFA-owned properties		Up to 100% LTV	Ranging from \$48,456 to \$94,220 for re-sale homes (not clear how these are set)	There are currently no eligible properties in Monterey County
5	Community Stabilization Home Loan Program (CalHFA)	Active	Conventional first mortgage loan program for first-time homebuyers of vacant homes that are owned by participating financial institutions			Ranging from \$48,456 to \$94,220 for re-sale homes (not clear how these are set)	There are currently six eligible properties in Monterey County (four of which are pending sale)

Program	Status of Program	Loan Type	Max. Purchase Price	Loan Limits	Qualifying HH Income	Other Notes
6 WISH (FHLB)	Funded annually	Grants for down payment assistance or closing costs to first-time homebuyers	No maximum	Lesser of \$15,000 or three times the amount of homebuyer's down payment	Up to 80% of AMI (w/ exceptions for USDA 502 program)	Assistance subject to 5-year retention agreement
7 IDEA (FHLB)	Funded annually	Grants for down payment assistance or closing costs to first-time homebuyers who have completed a FSS contract through HUD	No maximum	Lesser of \$15,000 or three times the amount of (a) homebuyer's down payment, or (b) an escrow account	Up to 80% of AMI (w/ exceptions for USDA 502 program)	Assistance subject to 5-year retention agreement
8 USDA 502 Program		Loan guarantee program for rural residents to purchase, construct, or rehab homes		Up to 100% of the appraised value of the home; loan terms to be set by the participating lender but interest rate is limited by Fannie Mae rate	Up to 115% of AMI	



**County of Monterey**

**First Time Home Buyer Program Manual**

**December 2008**



# County of Monterey First Time Home Buyer Program Manual

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# County of Monterey First Time Home Buyer Program Manual

## INTRODUCTION

The Monterey County First Time Homebuyer Program (FTHB Program) provides down payment assistance loans primarily to lower income families and individuals who are first time homebuyers.

## DEFINITION OF FIRST TIME HOME BUYER

A "First-time homebuyer" means an individual or individuals or an individual and his or her spouse who have not owned a home during the three-year period before the purchase of a home with subsidy 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; and
- 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 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.

## FIRST-TIME HOMEBUYER PROGRAM

### 1. DESCRIPTION OF PROGRAM

#### Qualifying Households

Priority will be given to current residents of Monterey County and/or employed in Monterey County. Total income for all members of the household over the age of 18 is at or under 80% of Monterey County median income as adjusted for household size. The current median income schedule and methodology for determining income are included in Appendix A. Depending on the availability of alternative funding such as BEGIN or redevelopment or other HCD funding sources, households with income between 81-120% of median may be eligible for FTHB assistance.

#### FTHB Loan

##### Loan Type:

Generally, the loan will be a deferred (silent second) loan for the first 5 years of the loan term. After the initial 5-year term, the borrower's ability to re-pay will be evaluated. The loan may be converted to full or partial amortization or payments may continue to be deferred, depending on debt to income ratios at the time of review. In general, grants will not be given except lead based paint remediation grants may be approved by the Housing Loan Committee on a case by case basis. When funds are available from other sources, such as Cal HOME or Redevelopment, the payment provisions of that program will apply.

##### Interest Rate:

The rate will be three percent (3%) simple interest per year.

##### Term:

The FTHB loan funded by HOME, BEGIN and Cal HOME (principal and accrued interest) shall become all due and payable 30 years from the closure of escrow. However, the Note shall become all due and payable immediately if title to the property changes or if the property is no longer the primary residence of the borrower. Where primary financing is provided by the USDA 502 program and/or Redevelopment funds, the FTHB loan term shall match the requirements of the funding source.

##### Resale Controls and Affordability Periods:

The County's Inclusionary Housing Program, Redevelopment Program and the HOME program have minimum affordability periods and resale controls. The provisions of those programs will be utilized in regard to loan type, resale/recapture provisions and affordability period. In the event of a conflict of provisions, the program provision with the longer term and more conservative policy will apply.

##### Maximum Loan Amounts:

The approved standard loan amount for Monterey County is shown in Appendix C. The Housing Loan Committee may approve exceptions to the standard limit case by case basis upon review of the applicant's circumstances and funding priorities. An exception may also be granted by the Housing Loan Committee where other sources

## County of Monterey First Time Home Buyer Program Manual

of funding are utilized for the FTHB loan and different limits are in effect. In no event will the down payment assistance exceed HOME Program subsidy limits when HOME Program funds are utilized. No additional HOME assistance will be provided during the period starting one year following the filing of the HCD Project Completion Report through the end of the affordability period.

### Qualifying Properties

#### Maximum Purchase Price

Maximum Purchase Price of the home is limited by HUD or HCD and is adjusted on a regular basis. The Monterey County FTHB Program will be available for the purchase of property at or below the HUD or HCD maximum. The current maximum purchase price is included in Appendix D. The Housing Loan Committee may establish lower limits to respond to changes in market conditions, local priorities and availability of below market rate units.

#### Eligible Properties

Eligible Properties include single-family homes, condominiums, community land trusts, limited equity co-ops and mobile/manufactured homes on permanent foundations in the unincorporated areas of Monterey County and other forms of ownership that enables the buyer to make improvements on and encumber the property over a term sufficient to secure the FTHB loan. Note: Non-owner occupied units in 2-4 unit properties funded by HOME or CDBG must meet Program rental requirements as outlined in the HOME or CDBG Program Contract Management Manuals. Properties must be located in rural census tracts for loans to be funded with rural HOME or Cal HOME grant funds. Eligible census tracts are included in Appendix III. BEGIN loans may only be funded in approved new developments.

### Other Financing

#### Buyer Contributions:

Buyers will be required to put a minimum of three percent (3%) of the purchase price into an escrow account as their portion of the down payment. At its sole discretion, the Housing Loan Committee may make a finding of financial hardship upon review of applicants' circumstances and approve a reduction in the down payment requirement. Exceptions may also be granted by the Loan Committee where a financing program including, but not limited to the Farm worker Housing Grant Program, provides special terms or additional funds for the acquisition or where the buyer invests funds or sweat equity to build or rehabilitate the unit prior to close of escrow.

#### Primary Financing

California Housing Finance Agency (CalHFA) loans will generally be used to finance the first mortgage. Loans from other sources may be approved by the Housing Loan Committee on a case-by-case basis. The primary loan shall be fully amortized and have a term "all due and payable" in no fewer than 30 years. There shall not be a balloon payment due before the maturity date of the program loan.

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### Maximizing Primary Financing:

The County requires that the buyers obtain the maximum loan for which they are qualified. The County of Monterey intends to assist as many families as possible and therefore will provide the minimum assistance required to each qualified family.

Current underwriting standards are shown in Appendix A. Additional information on determining County FTHB loan amounts can be found in Appendix B.

## 2. ELIGIBILITY REVIEW AND PROCESSING PROCEDURES

### **Marketing**

The County of Monterey will market the First Time Homebuyer Program first to households meeting adopted affordable housing priorities specified in the Annual Housing Report:

- Preference for projects that address the needs of targeted areas, including Chualar, Boronda, Castroville, Pajaro, Las Lomas and other urbanized areas where the project will substantially benefit unincorporated residents.
- Preference to projects that provide new housing or access to housing for large low and very low-income families.
- Preference for projects that preserve existing housing when that housing is sound and is affordable to current low and very low-income residents.
- Support and enhance homebuyer capacity and opportunities.

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 County will ensure that all persons, including those qualified individuals with handicaps have access to the Program.

A. The Fair Housing Lender logo will be placed on all outreach materials. Fair housing marketing actions will be based upon a characteristic analysis comparison (census data may be used) of the Program's eligible area compared to the ethnicity of the population served by the Program (includes, separately, all applications given out and those receiving assistance) and an explanation of any underserved segments of the population. This information is used to show that protected classes (age, gender, ethnicity, race, and disability) are not being excluded from the Program. (For HOME, the Sponsor shall develop a Fair Housing Marketing Plan prior to project set up). Flyers or other outreach materials, in English and any other language that is the primary language of a significant portion of the area residents, will be widely distributed in the Program-eligible area and will be provided to any local social service agencies. The County has and will continue to sponsor

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homebuyer classes to help educate homebuyers about the home buying process and future responsibilities. Persons who have participated in local homebuyer seminars will be notified about the Program.

B. Section 504 of the Rehabilitation Act of 1973 prohibits the exclusion of an otherwise qualified individual, solely by reason of disability, from participation under any program receiving Federal funds. The County shall take appropriate steps to ensure effective communication with disabled housing applicants, residents and members of the public.

At least annually local realtors and lenders will be advised of the availability of program resources. Information regarding the program is included on the County's website and is available at County offices and the Monterey County Housing Alliance (MOCHA). Public service announcements and press releases are issued annually or as additional grants are received. Marketing information, application forms and other available information such as the lead based paint brochures and notices are made available in English and Spanish. In addition, program materials are provided to non -profit service agencies, the Housing Authority and Citizens Advisory groups to insure a wide distribution. Notices are published in newspapers of general circulation in Spanish and English. The County of Monterey will follow the affirmative fair marketing procedures contained in the Fair Housing and Equal Opportunity Procedural Guidelines.

### **Program Interest**

The County will establish a database of interested parties who have inquired about the First Time Homebuyer program. A form is completed for each telephone call and actions taken (i.e. mailing the flyer or Program Interest Forms and Realtor/Lender packets) are noted.

An applicant calls, picks up or downloads a 'Program Interest Form' from the County website, completes the form, and returns it to the County. The returned form is date-stamped and logged on the database.

### **Preliminary Screening**

The County makes a preliminary determination of eligibility and priority status according to current stated income and residence in the County, First Time Homebuyer status and adopted priorities. Those applicants who meet the qualifications are added to the First Time Homebuyer database. A letter will be sent to ineligible applicants citing the basis for the determination of ineligibility for the Program. Income determination and underwriting criteria are included in Appendix I.

Applicants who meet the guidelines for priority processing will receive a letter explaining the step-by-step process for participation. An information packet is included for the applicant to present to the lender. A Realtor packet is also provided.

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Applications from households who do not meet a designated priority for processing will be held for one month before the packet is mailed.

First Time Homebuyer Re-certification: Applicant information will be maintained in the FTHB database for a period of one year. Annual re- certification of eligibility is required. Applicants who do not comply with a re- certification request or other County inquiries requiring a written response shall be considered inactive and removed from the database.

### **Eligibility Determination**

An application is deemed complete when an eligible property is under contract, completed lender and realtor packets plus required documentation of eligibility are returned to the County and proof of approval of primary financing is in place.

### **Homebuyer Education**

Prior to loan closing the borrower must complete a homebuyer education program that meets Cal HOME guidelines. The borrower will be required to provide a course completion certificate from a County approved course which shall become part of the permanent loan file. Course fees are an eligible closing cost to be funded by the FTHB loan unless prohibited by the regulations of the funding source.

### **Applicant Selection**

In general, completed applications will be processed in the order received. However, the Housing Loan Committee shall, at its sole discretion, have the ability to prioritize applications as necessary to meet adopted County housing program objectives or grant milestones or to set aside applications that require additional documentation to satisfy questions that arise during the loan review process.

### **Equal Housing Opportunity/Affirmative Marketing**

The County of Monterey is committed to providing equal access to FTHB funds, by all eligible households in the County without consideration for race, creed, religion, color, national origin, sex, disability, or other classification.

During the operation of the FTHB Program, the County will supervise the review of the loan applications and screening of applicants to insure that all Fair Housing Laws are upheld.

The County uses the Equal Housing Opportunity logo on all advertising. Copies of the Federal and State Fair Housing Laws will be made available to all interested parties. A copy of all advertising and marketing materials will be retained by the County and made available to HCD or other funding agencies during monitoring or as otherwise requested.



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### Conflict of Interest Provisions

No member of the governing body of the locality and no other official, employee, or agent of the County government who exercises policy, decision-making functions, or responsibilities in connection with the planning and implementation of the FTHB Program shall directly or indirectly be eligible for this program, unless the application for assistance has been reviewed and approved according to applicable California Department of Housing and Community Development (HCD) or other funding source guidelines. This ineligibility shall continue for one year after an individual's relationship with the County ends.

### 3. LENDER APPLICATION PROCESS

Applicants contact a lender of their choice to complete the loan application. A list of CalHFA approved lenders is made available upon request. CalHFA underwriting standards which include providing verification of income, expenses, family size, and other information and requirements listed in the "County of Monterey First-Time Homebuyer Lending Guidelines" will be utilized. The lender has the applicant complete an Applicant Certification of Eligibility Form, which becomes part of the loan package.

If the applicant's income is within program guidelines and is sufficient to purchase available homes with Down payment Assistance, the applicant will be directed to select a Realtor to find a home, write a contract and begin the purchase process. The applicant provides the Realtor with the Realtor Packet.

Applicants pay the lender for a credit report. The lender will then calculate the price range that the buyer can afford and complete an Initial Eligibility Review and Determination Form. The lender forwards copies to the County and the realtor.

The maximum allowable overall debt to income ratio shall conform to private and/or conventional lending standards and shall not exceed fifty percent (50%) of the applicant household's income for HOME and CDBG funded loans. The underwriting criteria of other funding shall prevail when those funds are matched with HOME or CDBG resources or are the sole source of FTHB assistance.

Co-borrower or co-signer loans may be approved where the applicant is unable to qualify without a co-borrower or co-signer. The co-borrower must sign an affidavit of non-occupancy for the residence to be purchased and co-sign on the Note for the primary financing. If the primary lender requires the co-borrower on title, the co-borrower must sign all standard FTHB documents in addition to the Co-Borrower Affidavit.

### 4. HOME SELECTION AND PURCHASE

Applicants will select a realtor of their choice to help them find a home and write a purchase agreement. The County of Monterey may consider applications for real estate transactions if the applicant and/or seller choose not to use a Realtor or

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attorney. The applicant and seller shall be required to sign an Acknowledgment form for such transactions.

### Acquisition Notices and Affidavit

Prior to presenting the offer to purchase an existing home, the Buyer and/or the Buyer's agent shall require the Seller to sign the following forms as appropriate:

- "Acquisition Notice to Seller": This form includes; (a) certification that the purchaser has no power of eminent domain and will not acquire the property if negotiations fail to result in an amicable agreement, (b) an estimate of the fair market value of the property to be finally determined by a state licensed appraiser, and (c) a statement that if an Acquisition Notice is not given prior to acceptance of the purchase offer, the seller may withdraw from the agreement after this information is provided.
- A "Notice to Sellers of Existing Homes": This form requires that the property is subject to inspection and seller will make all necessary repairs to the property prior to the close of escrow unless the purchase is for acquisition and rehabilitation.
- All housing units built prior to January 1, 1978 will require a lead paint disclosure to be signed by both the homebuyer and the seller.
- Since the purchase would be voluntary, the seller would not be eligible for relocation payments or other relocation assistance.
- An "Affidavit of Prior Occupancy": This form provides information regarding occupancy of the unit for four months prior to acceptance of the purchase offer.

### Home Protection Plan

The County will recommend that the buyer purchase a Home Protection Plan. These plans provide insurance on all interior electrical, plumbing, and appliances for the first twelve (12) months. The cost of the protection plan may be included in the FTHB loan and paid through escrow as a part of the closing costs.

### Relocation

Tenant occupied homes are not eligible for HOME funding under the County of Monterey First-time Homebuyer Down-Payment Assistance Program unless the existing tenant is purchasing the unit. It is not anticipated that the implementation of the FTHB program will result in the displacement of any persons, households, or families.

However, in the event relocation is necessary, activities will be carried out in compliance with Federal relocation law, Section 104(d) of the Housing and Community Development Act of 1974, as amended (42 USC Section 5301 et seq.), CFR Part 42, Section 305 et seq. and the County's Relocation Plan.

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### Vacant units

Seller must provide documentation of recent owner occupancy or submit acceptable proof of vacancy for a minimum of four months if the unit was previously tenant occupied and will be funded with HOME Program resources.

### New Homes

Construction must be complete, the property must comply with all local codes and standards, and a Certificate of Completion / Occupancy made available prior to close of escrow. Improvement bonds shall be paid-in-full by the seller prior to or at close of escrow.

### Existing Homes

Unless rehabilitation costs are included in the FTHB loan, prior to close of escrow the property must comply with all local codes and standards. For acquisition and rehabilitation loans, the property must comply with the County's Property Rehabilitation Standards within six months of the acquisition.

## 5. INSPECTION CLEARANCES

The County contract is with qualified property inspection and architectural firms for inspection services.

### Lead-based Paint Hazards

All housing units built prior to 1978 for which HOME or CDBG funding is anticipated are subject to the requirements of this section. Such homes must undergo a visual assessment by a person who has taken HUD's online Visual Assessment course. Deteriorated paint must be stabilized using work safe methods. Clearance must be obtained after paint stabilization by a DHS certified LBP Risk Assessor/Inspector. HOME and CDBG general administrative and activity delivery funds may be used to pay for lead-based paint visual assessments, and if lead mitigation and clearance costs are incurred, these programs may incorporate the costs into the calculation of Program assistance. (Note: the CDBG Program allows grants for lead hazard evaluation and reduction activities. The HOME Program allows grants for lead hazard evaluation and reduction activities only for acquisition with rehabilitation programs where the proposed paint stabilization measures do not add value to the home, and upon approval of revised regulations expected to be adopted in April, 2004, HOME will also allow grants for lead hazard evaluation and reduction activities that do not add value to the home for acquisition-only programs.)

The following requirements must be met:

**1. Notification:** a) Prior to homebuyer's obligation to purchase a pre-1978 home, the Buyer will be given a copy of and asked to read the EPA pamphlet "Protect Your family From Lead in Your Home". (EPA 747-K-94-001, September 2001) A signed receipt of the pamphlet will be kept in the Sponsor's homebuyer file; b) A notice to

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residents is required following a risk assessment/inspection using form DHS 8552, which is provided by the DHS-certified Risk Assessor/Inspector; c) a notice to residents is required following lead-based paint mitigation work using Visual Assessment and Lead-based Paint Notice of Presumption and Hazard Reduction form, LBP – 1 (Attachment J).

**2. Disclosure:** Prior to the homebuyer's obligation to purchase a pre-1978 housing unit, the HUD disclosure (Attachment F), "Seller's Lead-based Paint Disclosure" notice must be provided by the seller to the homebuyer.

**3. Inspections:** The Inspector shall conduct a "Visual Assessment" of all the dwelling unit's painted surfaces in order to identify deteriorated paint. All deteriorated paint will be stabilized in accordance with CFR 35.1330 (a) and (b); and a Clearance shall be made in accordance with CFR 35.1340.

**4. Mitigation:** If stabilization is required, the contractor performing the mitigation work must use appropriately trained workers. Prior to the contractor starting mitigation work the Program Operator shall obtain copies of the contractor's and workers' appropriate proof of LBP training, as applicable to the job in order to assure that only qualified contractors and workers are allowed to perform the mitigation.

**5. Purchase Contract Contingency Language:** Before a homebuyer is obligated under any contract to purchase a pre-1978 housing unit, the seller shall permit the homebuyer a 10-day period (unless the parties mutually agree, in writing, upon a different period of time) to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards. (See Attachment G for sample lead-based paint contract contingency language).

A homebuyer may waive the opportunity to conduct the risk assessment or inspection by so indicating in writing, such as in Attachment F, item (e)(ii). In this case the purchase contract contingency language is not required.

The County will: 1) confirm that the housing unit is within the eligible area, and 2) will review each proposed housing unit to ensure that it meets all eligibility criteria before funding.

### Inspections

**Pest Control Inspection:**

A licensed inspector shall make a pest inspection of the property. Any work required to correct existing substandard conditions shall be completed prior to the close of escrow. For acquisition and rehabilitation loans, the property must comply with the County's Property Rehabilitation Standards within six months of the acquisition.

### Building Standards:

**All homes will meet as a minimum requirement, the County's Property Rehabilitation Standards.** The Rehabilitation Standards to be utilized in order to determine the scope, eligibility, and completion of rehabilitation work are:

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Federal Housing Quality Standards

State of California, Health and Safety Code

If unit was built prior to 1978, Lead-Based Paint Regulations as provided in Title X of the Housing and Community Development Act of 1992

Cost Effective Energy Conservation and Effectiveness Standards

The following codes adopted by Monterey County as they relate to:

Repairs/replacement and rehabilitation completion in existing housing or new construction

Uniform Building Code

Uniform Mechanical Code

Uniform Plumbing Code

National Electrical Code

Uniform Housing Code

To determine compliance with necessary local codes and health and safety standards, existing homes will be inspected by either (1) an FHA appraiser as a Lender requirement on all CalHFA/FHA loans, or (2) by the Monterey County Housing Division Inspector or representative. The County contracts for housing inspection services and requires HQS format reports. FHA appraisals with HQS checklists may be substituted for the County inspection report.

New Homes will be built under the requirements of the Uniform Building Codes and the adopted Building Code of the County of Monterey. Newly constructed housing must also meet the requirements of the current edition of the Model Energy Code.

The Primary lender may require other inspections and repairs before making a loan on the property.

## 6. INSURANCE REQUIREMENTS

### Hazard Insurance

The borrower shall secure and maintain hazard insurance on the property for the duration of the loan(s). This insurance must be an amount adequate to cover all encumbrances on the property. The insurer must identify the County as Loss Payee for the amount of the loan(s). In situations of financial hardship where the owner does not have insurance at the time the loan is made, the County may include the cost of such insurance in the loan. An insurance certificate shall be provided to the County. In the event the owner fails to make the insurance premium payments in a timely fashion, the County at its option may make such payments for a period up to 12 months. The County may, in its discretion and upon the showing of special circumstances, make such premium payments for a longer period of time. Should the County make any payments, it may, in its sole discretion, add such payments to the principal amount that the owner is obligated to repay the County under this program.

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### Flood Insurance

In areas designated by HUD or the Federal Emergency Management Agency (FEMA) as a 100- year flood zone, the owner is required to secure and maintain flood insurance in an amount adequate to secure the FTHB Loan and all other encumbrances. This policy must designate the County as Loss Payee. The premium may be paid by the County as described above.

### Approvals

Upon receipt of the accepted purchase agreement the lender will process the loan and send the loan package to CalHFA or alternate lender and the County for approvals. The entire loan application, credit report, appraisal, title report, verification of income, assets and liabilities and other documents are forwarded to the County along with the loan package checklist. Upon receipt by the County, the package is date-stamped, entered into the log, and a loan file is set up for the borrower. When CalHFA has approved the loan the lender will send the CalHFA approval to the County. The lender will notify the applicant and title company of loan approval. Escrow will be scheduled to close within approximately 14 days. At this time the Buyers contribute their down payment funds into escrow.

### Denials

Loans denied by CalHFA may be repackaged and resubmitted to an alternate lender. The lender will provide such information to the County for review prior to consideration by the Housing Loan Committee. The staff report shall include the reason for denial, source of matching funds, if required and any other information relevant to underwriting analysis. Except for seller financing and government programs, the lender must be able to provide a fixed-rate loan for a 30-year term at competitive rates with no interest rate buy-down, negative amortization, principal increases, deferred interest or balloon payment. All households will be required to have impound accounts for the payment of taxes and insurance to ensure they remain current.

## 7. HOUSING LOAN COMMITTEE

The Housing Loan Committee (HLC) consists of representatives from the Office of the County Counsel, Revenue Division and Housing and Redevelopment Division. The Committee reviews and approves individual loan applications, subordination requests, default, foreclosures and modification proposals. In addition, the HLC reviews program policy insures and procedures as necessary to enhance the effectiveness of the Program. The HLC meets monthly or more frequently as required. Application evaluation criteria to be considered includes:

- Applicant's income status, and property characteristics to verify that program eligibility and loan requirements have been met.
- Credit report, loan to value ratio, debt coverage ratio, appraised value, preliminary title report and any other information that may be required to minimize the risk of loss to the County in the event of foreclosure.
- Priority in approving funding will follow housing policies adopted by the Board of Supervisors in the Annual Housing Report.

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All applicants and borrowers will be notified in writing of the Loan Committee decisions.

Loan Committee decisions may be appealed. The process is described in Section 10 below.

### 8. LOAN REVIEW BY COUNTY

Upon receipt of the loan package, the County will review the package for compliance with FTHB guidelines. Housing staff will complete an analysis of the application and prepare an Income Worksheet. Utilizing the criteria in the Income and Underwriting Standards (Appendix A) the loan will be processed for HLC review.

A staff report, which includes the analysis, debt to income ratios and proposed loan amounts will be prepared for review by the Housing Loan Committee. The item will be scheduled for the next available meeting. The agenda and standard notices for the meeting will be posted and distributed.

After the HLC has taken action on the application, staff will complete loan processing subject to final approval of primary financing by CalHFA or alternate lender and satisfaction of other conditions of approval. In the case of denial, written notification will be mailed to the applicant with copies to the lender and realtor.

### 9. PROGRAM COMPLAINT AND APPEAL PROCEDURE

Complaints concerning the FTHB Program should be made to housing staff. If unresolved in this manner, the complaint or appeal shall be made in writing and filed with the Housing Program Manager. The Program Manager will schedule a meeting with the applicant. A written response will be made within fifteen (15) working days of the meeting. Appeals of the Program Manager response are made to the Housing Loan Committee.

### 10. LOAN CLOSING

An appointment is scheduled for loan document review. The First Time Homebuyer Program Agreement, Loan Disclosure, 3-Day Notice of Right to Rescind, Privacy Act Notice, Fair Housing Notice, Promissory Note and Deed of Trust are reviewed with the Borrower and signed. The Request for Notice of Default and Deed of Trust are notarized. Hazard and flood insurance requirements are reviewed and an acknowledgment signed.

The County will issue escrow instructions and forward the Deed of Trust and the Request for Notice of Default to the Title Company. The County will then draw a check for the FTHB loan, which will be picked up by the escrow company or delivered by housing staff.

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The Escrow agent at the Title Company prepares the documents for execution and recording. The Borrowers Estimated Closing Statement is forwarded to the County for review and approval. No cash out of escrow to borrowers will be approved; the FTHB loan amount will be reduced by the amount of overage and amended escrow instructions shall be forwarded to the Title Company.

The Escrow agent records the Deed of Trust and Request for Notice of Default and forwards conformed copies along with the HUD 1 Settlement Statement and insurance binder to the County within five (5) days. The Title Policy is generally sent under separate cover.

Borrowers move into their new home.

### **11. AMENDMENTS AND EXCEPTIONS**

Amendments to these policies for HCD funded programs may be made by the County and submitted to HCD for approval. Any amendments required by state or federal law or regulations shall be implemented by the date specified by such Law or regulation without requiring further approval by the County or HCD. Adjustments to income and property valuation limits promulgated by HUD, HCD or other funding source shall become effective upon notice to the County.

Exceptions to these guidelines require Monterey County Board of Supervisors and HCD approval unless required by Law or changes to State or Federal regulations or regulations of the funding source for new programs. The Guidelines shall be reviewed for conformance with current regulations at least annually or in conjunction with the acceptance of new grants or loans that provide program funding.

### **12. LOAN SET-UP**

On HOME loans, the County prepares the Project Set-Up Report, Funding Source Detail, Draw-Down Request and Project Completion Report and sends to State HCD along with the HUD-1 and Income Worksheet. Loans funded from other sources such as Cal HOME shall follow the fiscal procedures specified by the program. Upon receipt of the Draw-Down Request the State will set up the request with HUD and send the County a reimbursement check within approximately sixty (60) days. The loan is added to the Loan Log and flagged for annual and 5-year review as appropriate.

The Original Promissory Note, Deed of Trust, Title Policy and insurance binder are set up in a Vault File and stored in a fireproof file cabinet. A financial file consisting of copies of the security documents, draw-down request, match documentation, loan approval and related matters is set up for the Fiscal Officer's records. The Master loan file shall, in addition to the previously related information, contain income and asset verification and other eligibility related documentation.

### **13. LOAN MAINTENANCE**



## County of Monterey First Time Home Buyer Program Manual

### Period of Affordability

#### Home

- Each loan funded by HOME is required to meet the following period of affordability based on the amount of HOME assistance:

Less than \$15,000	-	5 years
\$15,000 to \$40,000	-	10 years
More than \$40,000	-	15 years

During the period of affordability, the borrower is required to document occupancy and certify that the home is the primary residence of the household.

If the house is sold and the loan is not assumed, the period of affordability ends and funds are recaptured. If the loan is assumed by an eligible household and the sales price is affordable under HOME regulations, the original term of affordability applies.

Redevelopment

Loans funded through Redevelopment Agency resources are required to maintain affordability for 45 years. The affordability period for rentals is 55 years and a Regulatory Agreement is recorded on the property to document the restriction.

## 14. LOAN MANAGEMENT

### Monitoring

#### Annual:

The County will perform an annual monitoring of the properties, which have been assisted with First-Time Home Buyer Down-Payment Assistance to determine that: The qualified household is in residence, the unit has not been rented or sold and remains the primary residence of the borrower; Hazard insurance, including flood insurance (if required) is in place that complies with terms of the Loan documents.

#### Five Year Reviews:

At the conclusion of five years from the loan closing date and at five-year intervals thereafter, the County will evaluate the Borrowers ability to repay HOME and CDBG funded loans based on income housing expenses and total long-term debt to income ratios.

The Housing Loan Committee shall review and approve any proposed modifications to the terms of the loan including continued deferral of payments.

### Subordination

Requests for subordination will be processed in accordance with the following guidelines.

## County of Monterey First Time Home Buyer Program Manual

### General Procedures:

- Borrower completes Subordination Request form and submits the form along with any required documentation of special circumstances to the Housing and Redevelopment Division. Copies of the Subordination Request Forms, lender letters and sample letters are included in the FTHB Forms Binder.
- Borrower has lender forward copies of the credit report, loan application, appraisal, income verification, preliminary title report and preliminary loan closing statement.
- Staff reviews information and determines conformance with the subordination guidelines for the type of loan. See Attachment 1 for the method of determining household income.
- Subordination requests can be approved at the staff level when the proposed loan to value ratio is under 90% of the current appraisal value of the property and no change in borrowers equity is proposed (no cash out). Cal HOME and Joe Serna Farm worker Housing Grant funded loans do not allow refinancing with cash to the borrower.
- The Housing Loan Committee reviews all requests where the proposed loan to value ratio exceeds 90% of the current appraised value of the property or where the borrower proposes to take cash out.
- Subordination requests will generally be approved when the new loan results in a lower interest rate, reduces payments or otherwise improves the borrower's or the County's position and no cash is taken out. Also, the program loan's repayment schedule cannot be compromised by the new loan.
- The borrower will be notified in writing of the approval/denial of the Subordination Request.
- The Subordination Agreement is prepared by the Title Company and forwarded to the County for execution after the borrowers have signed and the document is notarized. The Housing Program Manager or designee is authorized to sign the documents on behalf of the County. Upon execution, the Agreement is returned to the Title Company for recording. The recorded Agreement is copied and the original document is removed to the vault file for the loan.

### Amortized:

- The borrower's payment record will be reviewed to determine if payments have been made in a timely manner. Subordination will not be approved when the borrower has a record of chronic late payments to the County unless loan proceeds are to be used to bring the County's loan current.
- To the extent allowable by the regulations of the funding source. A borrower may be allowed to take equity out with the new loan when there are special circumstances, such as, medical or educational expenses or necessary home repairs.

### Deferred Loans:

- The proposed debt cost to income ratio shall not exceed 40%.
- The borrower's ability and willingness to make payments on the County's loan, in addition to the proposed loan will be determined and considered by

## **County of Monterey First Time Home Buyer Program Manual**

the Housing Loan Committee in reviewing the proposed subordination. The ability of the borrower to pay the FTHB loan in full will be determined by the lender and such information shall be considered by the Housing Loan Committee.

- Borrowers will be allowed to take equity out when there are special circumstances as described above, however, the Loan Committee may require the borrower to begin making full or partial payments on the County's loan as a condition of approval of the subordination.

Borrower will be required to sign a Modification of Promissory Note with the terms approved by the Housing Loan Committee and execute a Memorandum of Modification of Deed of Trust to be recorded prior to or concurrent with recordation of the of the Subordination Agreement.

### **Loan Modification and Forbearance**

Loan modifications and forbearance are considered by the Housing Loan Committee in connection with the Five Year Review and upon request by a borrower who is temporarily or permanently unable to make scheduled loan payments due to financial hardship and at the loan maturity date.

- The borrower is required to submit updated information on household composition, documentation of current income, assets, insurance, mortgage and long-term debts for evaluation. Two years federal tax returns are required.
- In the case of financial hardship, the type of documentation required will depend on the basis of the hardship for example, a claim of disability would necessitate review of amount of disability benefits, doctors statements estimating term of disability and documentation of medical expenses not covered by insurance.
- Loan modifications will be recommended if the hardship is expected to continue for more than one year or the household debt to income ratio exceeds 50% excluding the FTHB loan. A new five-year review term is established and payments are deferred.
- If the financial hardship is short-term in nature, payments will be temporarily suspended. A forbearance plan will be developed to allow the borrower to bring the loan current over a reasonable time period.
- Options available at loan maturity date are deferral of the principal and interest for 5 years or conversion to an amortized loan payable within 15 years. BEGIN loans convert to zero interest in these situations and are deferred for an additional 30 years. All other FTHB loans continue at the original interest rate.

### **Loan Assumptions**

The First Time Homebuyer Loan may be assumed by an income-eligible purchaser, (household income is 80% of median or less) who meets all other criteria for the FTHB Program. However, Cal HOME loans are not assumable.

## County of Monterey First Time Home Buyer Program Manual

of the loan term. HOME loans that are assumed must meet all the “resale” criteria of the HOME program.

- The purchaser must qualify as a First Time Homebuyer and meet standard underwriting criteria.
- The purchase price may not exceed the limit for Monterey County as approved by the federal Department of Housing & Urban Development or HCD.
- Primary financing must be a fixed rate conventional loan. However, the purchaser will not be required to obtain financing through CalHFA.

The Housing Loan Committee will review all Loan Assumption requests. The HLC shall have the ability to deny such requests if it determines that Housing Program objectives and milestones would be better served by loan recapture (prior to expiration of the minimum affordability period) or repayment.

### **Loan Repayment, Payoffs, and Recapture**

- Borrowers may make voluntary payments of principal and interest without penalty.
- Payments are first applied to accrued interest.
- The remaining payment amount reduces the principal balance.
- The County maintains records of all payments and issues an annual statement of interest paid.
- Borrowers may request a payment history and principal balance remaining by contracting the Housing Office.

#### Loan Payoff Procedures

- Borrower or borrower’s representative requests payoff demand
- Demand calculation form is completed.
- Housing Staff reviews loan files to confirm number of loans, terms, balances and regulatory agreements.
- Demand for Title Company is prepared and sent via fax and mail.
- Upon receipt of payment in full, the reconveyance is prepared and forwarded to Recorder’s Office for recording.
- Housing and Redevelopment Office will make copies or recorded reconveyance for file. The original is forwarded to the owner.

#### Recaptured Funds

Borrowers are permitted to payoff their loan at any time. HOME loans that are repaid before expiration of the affordability period are recaptured.

Recaptured funds may not be used for program administration.

### **Sale of other FTHB assisted property**

#### Inclusionary Units/Redevelopment Assisted Units

Units developed under the County’s Inclusionary Ordinance and Redevelopment Program have affordability restrictions with specific terms. Existing units with FTHB loans will follow the re-sale provision of the County’s Inclusionary Administrative

## County of Monterey First Time Home Buyer Program Manual

Manual for Inclusionary Units and Redevelopment law provisions for Redevelopment units.

### Re-sale Restricted Units

FTHB Loans provided in conjunction non-profit housing developments may have project specific re-sale restrictions as approved by the Housing Loan Committee and as provided by approved source of funding.

### Market Rate Re-sales

Unless otherwise restricted as described above, the FTHB assisted unit may be sold at fair market value.

## **15. DEFAULT AND FORECLOSURE:**

Foreclosure actions must be reviewed and approved by the Housing Loan Committee.

County as Junior Lien holder

It is the County's policy to prepare and record a "Request for Notice" on all senior lien placed on properties financed by a loan or loans through FTHB program funds with notification to come to the Housing and Redevelopment Program Manager.

This document requires any senior lien holder to notify the County of initiation (recording of "Notice of Default") of a foreclosure. The junior lien holder may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount must be obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges, advances (fire insurance premiums, property taxes, property protection costs, etc.), and foreclosure costs (fees for legal counsel, recordings, certified mail, etc.).

Once the County has the information on the reinstatement amount, staff must then determine if it is cost effective to protect the County's position by reinstating the senior lien holder, keeping the first loan current by submitting a monthly payment thereafter, foreclosing on the property possibly resulting in owning the property at the end of foreclosure, protecting the property against vandalism and paying marketing costs (readying the home for marketing, paying for yard maintenance, paying a real estate broker a sales commission).

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

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### Default on Loan Repayment

When the Borrower is in default on the County loan, active collection efforts will begin on any loan that is 31 or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current.

These attempts will be conveyed in an increasingly urgent manner until loan payments have reached 60 days in arrears, at which time the County may consider foreclosure. An appointment will be scheduled to discuss the reason for the arrearages. If due to job loss, reduction in income or other financial hardship, the Housing Loan Committee will consider forbearance or modification of the loan terms. County staff will consider the following factors before initiating foreclosure.

Determine if the borrower is willing to refinance with a commercial lender or to sell the property to pay off the County First Time Homebuyer Loan.

Review the loan balance; if the balance is under \$5,000, the expense to foreclose may exceed the loan amount.

Determine if the sale of home "as is," will be sufficient to cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs.

If the balance is substantial and all of the above factors have been considered, the County may opt to initiate foreclosure. The owner 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 County to prevent foreclosure.

At the end of thirty days, the County will 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 County of all required documentation to initiate foreclosure and funds required from the owner to cancel foreclosure proceedings.

When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the County would then contact a real estate broker to market the home.

### Non-Monetary Defaults/Acceleration of Note

The County may issue a Demand for Repayment in situations where the Borrower has breached the terms of the Promissory Note, Deed of Trust or First Time Homebuyer Agreement. Examples include: failure to maintain adequate insurance coverage; no longer occupying the property as primary residence; or failing to document occupancy, sale, transfer or assignment of the property or in the case of misrepresentation or fraud for the purpose of obtaining the FTHB loan.

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### APPENDIX A - INCOME & UNDERWRITING STANDARDS

#### 1. INCOME DETERMINATION AND INCOME LIMITS

##### Determining Income Eligibility

Annual income includes the gross amount of income of all adult household members anticipated to be received during the coming 12 months. The current employment and income situation of the family should be used to determine the anticipated annual income. When determining the household size, the following are not counted as household members: co-borrowers, foster children, live-in aides, and unborn children and children being pursued for legal custody or adoption who are not currently living in the household. Once the annual household income has been established, it must be compared to the most recent HUD area income limits. **In no event will HOME, Cal HOME or CDBG Program assistance be provided to households whose incomes exceed HUD income limits for 80% of the median income of the Monterey County Area as adjusted for household size.** Depending on the availability of BEGIN, Redevelopment, Inclusionary, Joe Serna Farm worker Housing Grant or other funding that has higher limits (including exceptions to CDBG funding), households with incomes between 80-120% of median may be eligible for FTHB Program loans.

All persons in residence are considered household members for purposes of income eligibility unless specifically excluded in the paragraph above. Listed below are definitions of income.

#### 24 CFR Part 5 ANNUAL INCOME INCLUSIONS AND EXCLUSIONS

##### Part 5 Inclusions

This table presents the Part 5 income inclusions as stated in the Code of Federal regulations.

General Category	Statement from 24 CFR 5.609 paragraph (b) (April 1, 2004)
1. Income from wages, salaries, tips, etc.	The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
2. Business Income	The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight-line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family.
3. Interest & Dividend Income	Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in number 2 (above). Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family. Where the family has net family assets in excess of \$5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD.
4. Retirement & Insurance Income	The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount (except as provided in number 14 of Income Exclusions).

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5. Unemployment & Disability Income	Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay (except as provided in number 3 of Income Exclusions).
6. Welfare Assistance	<p>Welfare Assistance. Welfare assistance payments made under the Temporary Assistance for Needy Families (TANF) program are included in annual income:</p> <ul style="list-style-type: none"> <li>▶ Qualify as assistance under the TANF program definition at 45 CFR 260.31; and</li> <li>▶ Are otherwise excluded from the calculation of annual income per 24 CFR 5.609(c).</li> </ul> <p>If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:</p> <ul style="list-style-type: none"> <li>▶ the amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; <b>plus</b></li> <li>▶ the maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is reduced from the standard of need by applying a percentage, the amount calculated under 24 CFR 5.609 shall be the amount resulting from one application of the percentage.</li> </ul>
7. Alimony, Child Support, & Gift Income	Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling.
8. Armed Forces Income	All regular pay, special day and allowances of a member of the Armed Forces (except as provided in number 7 of Income Exclusions).

### Part 5 exclusions

This table presents the Part 5 income exclusions as stated in the Code of Federal Regulations.

General Category	Statement from 24 CFR 5.609 paragraph (c) (April 1, 2004)
1. Income of Children	Income from employment of children (including foster children) under the age of 18 years.
2. Foster Care Payments	Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
3. Inheritance and Insurance Income	Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses (except as provided in number 5 of Income Inclusions).
4. Medical Expense Reimbursements	Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of Live-in Aides	Income of a live-in aide (as defined in 24 CFR 5.403).
6. Disabled Persons	Certain increases in income of a disabled member of qualified families residing in HOME-assisted housing or receiving HOME tenant-based rental assistance (24 CFR 5.671(a)).
7. Student Financial Aid	The full amount of student financial assistance paid directly to the student or to the educational institution.
8. Armed Forces Hostile Fire Pay	The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
9. Self-Sufficiency Program Income	<ul style="list-style-type: none"> <li>a. Amounts received under training programs funded by HUD.</li> <li>b. Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS).</li> </ul>



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	<p>c. Amounts received by a participant in other publicly assisted programs that are specifically for, or in reimbursement of, out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and which are made solely to allow participation in a specific program.</p> <p>d. Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed \$200 per month) received by a resident for performing a service for the PHA or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, resident initiatives coordination, and serving as a member of the PHA's governing board. No resident may receive more than one such stipend during the same period of time.</p> <p>e. Incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program.</p>
10. Gifts	Temporary, nonrecurring, or sporadic income (including gifts).
11. Reparations	Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
12. Income from Full-time Students	Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of household or spouse).
13. Adoption Assistance Payments	Adoption assistance payments in excess of \$480 per adopted child.
14. Social Security & SSI Income	Deferred periodic amounts from SSI and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.
15. Property Tax Refunds	Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.
16. Home Care Assistance	Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep this developmentally disabled family member at home.
17. Other Federal Exclusions	<p>Amounts specifically excluded by any other federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions of 24 CFR 5.609(c) apply, including:</p> <ul style="list-style-type: none"> <li>▶ The value of the allotment made under the Food Stamp Act of 1977;</li> <li>▶ Payments received under the Domestic Volunteer Service Act of 1973 (employment through VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, senior companions);</li> <li>▶ Payments received under the Alaskan Native Claims Settlement Act;</li> <li>▶ Income derived from the disposition of funds to the Grand River Band of Ottawa Indians;</li> <li>▶ Income derived from certain sub-marginal land of the United States that is held in trust for certain Indian tribes;</li> <li>▶ Payments or allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program;</li> <li>▶ Payments received under the Maine Indian Claims Settlement Act of 1980 ( 25 U.S.C. 1721);</li> <li>▶ The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the U.S. Claims Court and the interests of individual Indians in trust or restricted lands, including the first \$2,000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands;</li> <li>▶ Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under the Federal work study program or under the Bureau of Indian Affairs student assistance programs;</li> </ul>

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- ▶ Payments received from programs funded under Title V of the Older Americans Act of 1985 (Green Thumb, Senior Aides, Older-American Community Service Employment Program);
- ▶ Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the In Re Agent Orange product liability litigation, M.D.L. No. 381 (E.D.N.Y.);
- ▶ Earned income tax credit refund payments received on or after January 1, 1991, including advanced earned income credit payments;
- ▶ The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990;
- ▶ Payments received under programs funded in whole or in part under the Job Training Partnership Act (employment and training programs for Native Americans and migrant and seasonal farm workers, Job Corps, veterans employment programs, state job training programs and career intern programs, AmeriCorps);
- ▶ Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation;
- ▶ Allowances, earnings, and payments to AmeriCorps participants under the National and Community Service Act of 1990;
- ▶ Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran;
- ▶ Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of a crime against the applicant under the Victims of Crime Act; and
- ▶ Allowances, earnings, and payments to individuals participating in programs under the Workforce Investment Act of 1998.

### Income Verification Requirements

The primary lender is responsible for obtaining income verification and forwarding such information to the County with the Lender packet. The Housing Staff will review the packet for completeness and request additional documentation; if necessary to clarify actual and projected income for the household.

The two procedures for verifying income are as follows:

1. **Third-Party Verification.** Through this method, the lender contacts outside sources in writing to provide information. Before you can obtain the information from the third-party entity you must have a written release from the household. The forms for these requests are listed below:
  - Verification of Employment;
  - Verification of Social Security;
  - Verification of Pension and Annuities;
  - Verification of Veterans Benefits;
  - Verification of Unemployment Benefits;
  - Verification of Public Assistance; or
2. **Review documentation provided by the applicants, including the following:**
  - Current 30-day consecutive pay stubs
  - Last three years of Federal Tax returns;
  - Last two years of W2's;

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- Last two months of bank statements;
- If self employed, last two years of Schedule C of Federal tax returns and a current profit and loss statement;
- Divorce documents showing child support and alimony received;
- Benefits statements (pension, Social Security, etc.).

### **Income Worksheet**

The Housing Analyst prepares an Income Worksheet using household income as projected for the next twelve months.

It is important when assessing the information, to note whether the employee is paid hourly, weekly, or monthly, and note average overtime pay. If an employee gets paid twice a month, that is 24 times per year, whereas if an employee is paid every two weeks, that is 26 times per year. It is also important to determine if overtime is continuous or sporadic. Documentation must be included in the Borrower's file.

In cases where the net assets are below \$5,000 use actual income. If net assets are in excess of \$5,000, use the higher of income generated by those assets or use the current passbook savings rate, which is currently 2%.

### **Maximum Income Limits**

HCD and HUD issue annual income limits based usually in the early spring of each year. Applicants with incomes at or below 80% of median as adjusted by household size are eligible for HOME, Cal HOME and CDBG Program funded loans. Households with income between 80-120% of median may be eligible if alternative funding is available with these income limits. The next page identifies the income limits for the Monterey County area.

State CDBG's and HOME's Table of 2008 Income Limits

County	INCOME * CATEGORY	NUMBER OF PERSONS IN HOUSEHOLD							
		1	2	3	4	5	6	7	8
Marin County	"30%" Limit	23,750	27,150	30,550	33,950	36,650	39,400	42,100	44,800
	"50%" Limit	39,600	45,250	50,900	56,550	61,050	65,600	70,100	74,650
	"60%" Limit	47,520	54,300	61,080	67,860	73,260	78,720	84,120	89,580
	"80%" Limit	63,350	72,400	81,450	90,500	97,700	104,950	112,200	119,450
Mariposa County	"30%" Limit	11,350	12,950	14,600	16,200	17,500	18,800	20,100	21,400
	"50%" Limit	18,900	21,600	24,300	27,000	29,150	31,300	33,500	35,650
	"60%" Limit	22,680	25,920	29,160	32,400	34,980	37,560	40,200	42,780
	"80%" Limit	30,250	34,550	38,900	43,200	46,650	50,100	53,550	57,000
Mendocino County	"30%" Limit	11,300	12,900	14,550	16,150	17,450	18,750	20,050	21,300
	"50%" Limit	18,850	21,500	24,200	26,900	29,050	31,200	33,350	35,500
	"60%" Limit	22,620	25,800	29,040	32,280	34,860	37,440	40,020	42,600
	"80%" Limit	30,150	34,450	38,750	43,050	46,500	49,950	53,400	56,850
Merced County	"30%" Limit	11,300	12,900	14,550	16,150	17,450	18,750	20,050	21,300
	"50%" Limit	18,850	21,500	24,200	26,900	29,050	31,200	33,350	35,500
	"60%" Limit	22,620	25,800	29,040	32,280	34,860	37,440	40,020	42,600
	"80%" Limit	30,150	34,450	38,750	43,050	46,500	49,950	53,400	56,850
Modoc County	"30%" Limit	11,300	12,900	14,550	16,150	17,450	18,750	20,050	21,300
	"50%" Limit	18,850	21,500	24,200	26,900	29,050	31,200	33,350	35,500
	"60%" Limit	22,620	25,800	29,040	32,280	34,860	37,440	40,020	42,600
	"80%" Limit	30,150	34,450	38,750	43,050	46,500	49,950	53,400	56,850
Mono County	"30%" Limit	13,850	15,800	17,800	19,750	21,350	22,900	24,500	26,050
	"50%" Limit	23,050	26,350	29,650	32,950	35,600	38,200	40,850	43,500
	"60%" Limit	27,660	31,620	35,580	39,540	42,720	45,840	49,020	52,200
	"80%" Limit	36,900	42,150	47,450	52,700	56,900	61,150	65,350	69,550
Monterey County	"30%" Limit	13,600	15,550	17,500	19,450	21,000	22,550	24,100	25,650
	"50%" Limit	22,700	25,900	29,150	32,400	35,000	37,600	40,200	42,750
	"60%" Limit	27,240	31,080	34,980	38,880	42,000	45,120	48,240	51,300
	"80%" Limit	36,300	41,500	46,650	51,850	56,000	60,150	64,300	68,450
Napa County	"30%" Limit	16,750	19,100	21,500	23,900	25,800	27,700	29,650	31,550
	"50%" Limit	27,850	31,850	35,800	39,800	43,000	46,150	49,350	52,550
	"60%" Limit	33,420	38,220	42,960	47,760	51,600	55,380	59,220	63,060
	"80%" Limit	43,050	49,200	55,350	61,500	66,400	71,350	76,250	81,200
Nevada County	"30%" Limit	13,700	15,650	17,600	19,550	21,100	22,700	24,250	25,800
	"50%" Limit	22,800	26,050	29,300	32,550	35,150	37,750	40,350	42,950
	"60%" Limit	27,360	31,260	35,160	39,060	42,180	45,300	48,420	51,540
	"80%" Limit	36,450	41,700	46,900	52,100	56,250	60,450	64,600	68,750
Orange County	"30%" Limit	19,550	22,300	25,100	27,900	30,150	32,350	34,600	36,850
	"50%" Limit	32,550	37,200	41,850	46,500	50,200	53,950	57,650	61,400
	"60%" Limit	39,060	44,640	50,220	55,800	60,240	64,740	69,180	73,680
	"80%" Limit	52,100	59,500	66,950	74,400	80,350	86,300	92,250	98,200

\* Percentages may not be mathematically related to each other. Percents are used as names for the categories because programs' actual names for limits differ.

# County of Monterey First Time Home Buyer Program Manual

## APPENDIX B. UNDERWRITING STANDARDS

### CREDIT HISTORY

Past credit history and credit patterns are verified by the primary lender and a copy of the report is included in the loan package for the County.

- Previous rental or mortgage payment history covering the most recent twelve month period must be documented if not included in the credit report
- Collections & Judgments: Court ordered judgments must be paid off prior to close of escrow unless a payment agreement is in effect and documentation of acceptable payments is made available.

- In the case of bankruptcy:

Chapter 7 Liquidation – At least two years must have passed since the bankruptcy was discharged.

Chapter 13 – A borrower paying off debts under Chapter 13 may be qualified if the Bankruptcy Court approves both the primary loan and FTHB additional debt and monthly payments.

#### Borrowers Without Credit History:

Utility payment records, insurance payments, non-commercial loan receipts and other documentation may be accepted when a borrower's Credit Report does not reflect adequate credit history.

#### Borrowers with Poor Credit History:

- In general, poor credit history more than two years past will not affect the credit review. More recent derogatory information will require written explanation from the borrower that is consistent with other credit information.
- Poor Credit: Borrowers with continuous slow payments and delinquent accounts within the last two years will not be eligible unless a co-borrower or co-signer with a compensating excellent credit history is willing to co-sign on the primary promissory note. The co-borrower or co-signer must sign the loan application and provide documentation of income, assets and credit history.

#### Previous Mortgage Foreclosure:

If foreclosure on the borrowers home was

- more than 3 years past;
- the result of extenuating circumstances beyond the borrowers control; and
- the borrower has since established good credit, then the foreclosure will not adversely affect eligibility under the FTHB Underwriting Standards.

#### Primary Lender Credit Disqualification:

The primary lender may disqualify applicants under additional credit criteria such as credit scores, delinquent state or federal debts, Credit Alert Interactive Voice Response System records or other factors that are part of the primary lender's or CalHFA's Underwriting Standards.

# County of Monterey First Time Home Buyer Program Manual

## STABILITY OF INCOME

Borrowers must demonstrate at least two years of income stability unless there are extenuating circumstances such as recent entry into the job market after college, trade school, staying out of the workforce to care for children or other family members; or job changes within the same industry or line of work.

### Self-Employed Borrowers

Income from self-employment is considered stable if the borrower has been self-employed for two years with a 25% or greater interest in a business and is able to provide tax returns and a profit and loss statement to document income and expenses.

## ASSETS AND GIFT FOR DOWN PAYMENT & CLOSING COSTS

### Required FTHB Down payment:

A 3% down payment of the purchase price is required for the FTHB loan unless the borrower meets all other criteria and demonstrates financial hardship. Exceptions may be granted for special terms of other subsidized financing, sweat equity or buyer investment in property repairs prior to close of escrow. CalHFA down payment assistance loans, in particular are encouraged.

- An outright gift of funds is acceptable for the down payment if the donor is a relative, employer, charitable organization, government or quasi-governmental agency or friend not otherwise party to the sales transaction.
- Loans for the required down payment from collateralized sources, such as retirement funds, life insurance and deposited funds are allowable as long as repayments may be provided by liquidating the asset.
- The primary lender may require additional documentation and additional funds beyond the County's requirements.
- The reason for the additional borrower funds must be provided to the County in writing with copies of the lender's or CalHFA's Standard Underwriting Criteria to support the request for additional funds.

## DEBT RATIOS

### **Housing Expense to Income Ratio**

In general, the total of principal and interest payments, real estate taxes, hazard insurance premiums and homeowner's association dues should not exceed 40% of the household's income. Higher ratios are acceptable if the household has a co-signer, low recurring expenses or other compensating factors described in the next section.

### Total Debt to Income Ratio

- In addition to housing costs, the following types of liabilities are to be included in the calculation of total debt to income: installment loans, revolving charge accounts, child support, alimony and any other debt lasting more than 12 months.
- Revolving accounts are calculated at 5 per cent of the current balance unless the account shows a specific minimum payment.

## County of Monterey First Time Home Buyer Program Manual

- Contingent liabilities are included unless a 12 to 24 month history demonstrating payment by another party is provided.
- The total debt to income ratio should not exceed 45 per cent unless there are substantial compensating factors. However, the Housing Loan Committee may approve higher ratios of up to 50% upon review of the borrowers credit history, projected income and assets and compensating factors.

### OTHER COMPENSATING FACTORS

#### **Non Taxable Income:**

Income that is not subject to federal taxes may be considered as compensating factor when a borrower's credit history or income stability is otherwise less than desired. For underwriting purposes an adjustment of 125% is acceptable.

#### Housing Expenses:

Borrower has successfully paid housing expenses, nearly equal to, equal to or greater than the proposed monthly expense over the last 12 months.

#### Down payment:

Borrower makes a large down payment toward purchase price plus closing costs.

#### Asset Reserves

Borrower has substantial liquid or readily converted asset reserves after closing and has contributed at least 3% towards the purchase of the property.

#### Co-signer

Co-signer or co-borrower has excellent credit history, substantial assets and/or low debt to income ratios. Co-signers contribution to the borrower's housing expense can be factored into the housing expense ratio with written documentation of the planned contribution including the period for which the co-signer will contribute.

#### Debt Pay down

When the borrower agrees to pay down existing debts in order to lower the total debt to income ratio and submits verification prior to loan closing.

#### Energy Efficient Homes

Higher ratios are allowed for homes built after April 1994 under the Model Energy Codes or otherwise determined to be energy efficient by the FHA, a home energy rating system or energy consultant (generally, up to 2%).

### **Determining FT HB Loan Amount**

The Housing staff will analyze the proposed loan utilizing the underwriting criteria described in previous sections above and:

- Review primary lenders Mortgage Credit Underwriting Worksheet to determine if the lender has maximized the first mortgage amount.
- Review the projected income including income from assets and complete the Income Worksheet.
- Calculate debt to income ratios based on documentation in the Credit Report, loan application and Lender's Estimated Borrower's Statement. Confirm principal and interest payments, estimated property tax and hazard insurance premiums.

## County of Monterey First Time Home Buyer Program Manual

- Confirm earnest money deposit, final purchase price, estimated closing costs, and funds available from the borrower for down payment.
- Contact borrower to discuss potential assistance from employers, family members and co-signers.
- Review compensating factors to determine if the borrower meets criteria for higher debt to income ratios.
- Calculate maximum loan based on total acquisition costs, funds from borrower for down payment and standard maximum ratios.
- Ensure that the term of program loan is less than or equal to the primary loan.
- Verify that the total loan to value of all loans is no more than 90%, unless special circumstances are approved by Housing Loan Committee.
- Calculate maximum loan based on higher ratios if compensating factors are significant. For BEGIN assisted units, the combined indebtedness shall not exceed one hundred percent of the sales price plus a maximum of up to 5 percent of the sales price to cover actual closing costs.
- Prepare a staff report for the Housing Loan Committee detailing the underwriting process and presenting standard and exception loan alternatives.



# County of Monterey First Time Home Buyer Program Manual

## APPENDIX C - LOAN LIMITS

The Monterey County First Time Homebuyer Loan Program (FTHB) is intended to provide the minimum gap financing to enable a household to qualify to purchase a home in the unincorporated areas of the County. The actual FTHB loan amount is determined based on underwriting criteria in APPENDIX A.

The standard loan limits shown below are the maximums that will be allowed unless the Housing Loan Committee determines that it is appropriate to approve a larger loan to reduce debt ratios. Exceptions to the limits will not be granted if the combined total of the primary financing, borrowers down payment, and standard FTHB loan amount are sufficient to cover the purchase price and closing costs. Borrowers are encouraged to utilize other programs such as CalHFA deferred payment loans to reduce the FTHB loan amount. Other resources, such as Cal HOME funding may be used as match.

Exceptions may also be approved based on, but not limited to, the following adopted Monterey County affordable housing priorities:

- Preference for projects that address the needs of targeted areas, including Chualar, Boronda, Castroville, Pajaro, Las Lomas and other urbanized areas where the project will substantially benefit unincorporated residents.
- Preference to projects that provide new housing or access to housing for large low and very low-income families.
- Preference for projects that preserve existing housing when that housing is sound and is affordable to current low and very low-income residents.

**Under no circumstances will HOME Assistance, including ADDI loans, (by unit size) exceed the HUD approved limits for Monterey County.** These are maximum HOME subsidy limits and are included on the next page.

<u>Bedrooms in Unit</u>	<u>Standard Loan Limit</u>	<u>Exception Limits</u>
Studio =	\$ 50,000	\$ 84,960
One =	\$ 60,000	\$ 97,390
Two =	\$ 85,000	\$118,425
Three =	\$ 98,000	\$153,202
Four or more =	\$100,000	\$168,168

**Note:** CalHOME limit is \$50,000  
BEGIN loan limit is \$30,000 or 20% of purchase price, whichever is less.

**HOME PROGRAM**  
**SUBSIDY LIMITS PER UNIT – SECTION 221(d) (3)**

(All limits are effective 5/28/08 except those which are highlighted and were effective 1/1/08)

COUNTY NAME	0-BDR	1-BDR	2-BDR	3-BDR	4-BDR
Alameda	\$133,250	\$152,746	\$185,739	\$240,285	\$263,760
Alpine	\$131,216	\$150,414	\$182,903	\$236,616	\$259,733
Amador	\$131,216	\$150,414	\$182,903	\$236,616	\$259,733
Butte	\$128,164	\$146,916	\$178,650	\$231,114	\$253,693
Calaveras	\$125,621	\$144,001	\$175,105	\$226,528	\$248,659
Colusa	\$129,181	\$148,082	\$180,068	\$232,948	\$255,706
Contra Costa	\$132,233	\$151,580	\$184,321	\$238,451	\$261,747
Del Norte	\$125,113	\$143,418	\$174,396	\$225,611	\$247,653
El Dorado (not including Lake Tahoe Area)	\$134,776	\$154,495	\$187,866	\$243,036	\$266,780
Fresno	\$119,010	\$136,422	\$165,889	\$214,606	\$235,572
Glenn	\$129,181	\$148,082	\$180,068	\$232,948	\$255,706
Humboldt	\$125,113	\$143,418	\$174,396	\$225,611	\$247,653
Imperial	\$122,061	\$139,920	\$170,143	\$220,108	\$241,612
Inyo	\$122,061	\$139,920	\$170,143	\$220,108	\$241,612
Kern	\$122,061	\$139,920	\$170,143	\$220,108	\$241,612
Kings	\$111,889	\$128,260	\$155,964	\$201,766	\$221,478
Lake	\$116,975	\$134,090	\$163,053	\$210,937	\$231,545
Lassen	\$129,181	\$148,082	\$180,068	\$232,948	\$255,706
Los Angeles	\$122,061	\$139,920	\$170,143	\$220,108	\$241,612
Madera	\$110,872	\$127,094	\$154,546	\$199,932	\$219,464
Marin	\$130,199	\$149,248	\$181,486	\$234,782	\$257,720
Mariposa	\$111,889	\$128,260	\$155,964	\$201,766	\$221,478
Mendocino	\$110,872	\$127,094	\$154,546	\$199,932	\$219,464
Merced	\$110,872	\$127,094	\$154,546	\$199,932	\$219,464
Modoc	\$129,181	\$148,082	\$180,068	\$232,948	\$255,706
Mono	\$122,061	\$139,920	\$170,143	\$220,108	\$241,612
Monterey	\$126,130	\$144,584	\$175,814	\$227,445	\$249,666
Napa	\$124,095	\$142,252	\$172,978	\$223,777	\$245,639
Nevada	\$130,199	\$149,248	\$181,486	\$234,782	\$257,720
Orange	\$122,061	\$139,920	\$170,143	\$220,108	\$241,612
Placer (not including Lake Tahoe Area)	\$132,741	\$152,163	\$185,030	\$239,368	\$262,753
Plumas	\$132,741	\$152,163	\$185,030	\$239,368	\$262,753

## County of Monterey First Time Home Buyer Program Manual

### APPENDIX D: MAXIMUM PURCHASE PRICE

HOME publishes annual maximum purchase price limits by unit size annually:  
Section 203(b)

The County can choose to lower these maximum purchase price limits but in no case can a home sale exceed these limits.

See the next page for maximum purchase price limits.

**2008 NOFA Appendix D  
Maximum Purchase Price/After-Rehabilitation Value Limits**

	<b>One-Family</b>	<b>Two-Family</b>	<b>Three-Family</b>	<b>Four Family</b>	<b>Last Revised</b>
Alameda County	612,750	784,452	948,220	1,178,405	4/3/2008
Alpine County	415,625	532,090	643,172	799,306	4/3/2008
Amador County	337,250	431,753	521,888	648,579	4/3/2008
Butte County	304,000	389,186	470,435	584,635	4/3/2008
Calaveras County	362,790	449,996	543,940	675,984	4/3/2008
Colusa County	302,100	386,753	467,494	580,981	4/3/2008
Contra Costa County	567,150	726,074	877,654	1,090,710	4/3/2008
Del Norte County	236,550	302,835	366,057	454,919	4/3/2008
El Dorado County	440,563	564,015	681,763	847,264	4/3/2008
Fresno County	289,750	370,943	448,383	557,230	4/3/2008
Glenn County	218,250	279,119	337,390	419,293	4/3/2008
Humboldt County	299,250	383,105	463,084	575,500	4/3/2008
Imperial County	247,000	316,213	382,228	475,016	4/3/2008
Inyo County	362,790	425,672	514,538	639,445	4/3/2008
Kern County	280,250	358,780	433,682	538,960	4/3/2008
Kings County	247,000	316,213	382,228	475,016	4/3/2008
Lake County	304,950	390,402	471,905	586,462	4/3/2008
Lassen County	216,600	277,295	335,185	416,552	4/3/2008
Los Angeles County	531,050	679,859	821,790	1,021,284	4/3/2008
Madera County	323,000	413,510	499,837	621,175	4/3/2008
Marin County	945,250	1,210,124	1,462,757	1,817,850	4/3/2008
Mariposa County	312,895	400,573	484,199	601,741	4/3/2008
Mendocino County	389,500	498,644	602,744	749,064	4/3/2008
Merced County	358,383	458,807	554,591	689,221	4/3/2008
Modoc County	200,160	256,248	309,744	384,936	4/3/2008
Mono County	362,790	464,449	561,411	697,696	4/3/2008
Monterey County	569,050	728,507	880,595	1,094,364	4/3/2008
Napa County	584,250	747,966	904,116	1,123,595	4/3/2008
Nevada County	427,500	547,292	661,549	822,143	4/3/2008
Orange County	674,500	863,506	1,043,777	1,297,159	4/3/2008
Placer County	412,300	527,833	638,027	792,911	4/3/2008
Plumas County	311,600	398,915	482,195	599,251	4/3/2008
Riverside County	380,000	486,482	588,043	730,794	4/3/2008
Sacramento County	362,790	446,190	542,100	625,500	4/3/2008
San Benito County	551,000	705,399	852,663	1,059,651	4/3/2008
San Bernardino County	362,790	441,482	533,649	663,195	4/3/2008
San Diego County	530,100	678,642	820,320	1,019,457	4/3/2008
San Francisco County	812,250	1,039,855	1,256,942	1,562,072	4/3/2008

# County of Monterey First Time Home Buyer Program Manual

## ATTACHMENT E

### LOAN SERVICING POLICIES AND PROCEDURES

#### FOR County of Monterey

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

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

#### 1. Loan Repayments:

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

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

#### 2. Payment of Property Taxes and Insurance:

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

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

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

#### 3. Required Request for Notice of Default:

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

#### 4. Annual Occupancy Restrictions and Certifications:

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

#### 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 Lender in writing of any change. Lender and borrower will work together to ensure the property is kept in compliance with the original Program terms and conditions such that it remains available as an affordable home for low income families. These types of changes are typical when Borrowers do estate planning (adding a relative to title) or if a Borrower dies and property is transferred to heirs or when the property is sold or transferred as part of a business transaction. In some cases the Borrower may move and turn the property into a rental unit without notifying the Lender. Changes in title or occupancy must be in keeping with the objective of benefit to low-income households (below 80 percent of AMI).

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

If a transfer of the property occurs through inheritance, the heir (as owner-occupant) may be provided the opportunity to assume the loan at an interest rate based on household size and household income, provided the heir is in the TIG. If the heir intends to occupy the property and is not low-income, the balance of the loan is due and payable. If the heir intends to act as an owner-investor, the balance of the loan may be converted to an owner/investor interest rate and loan term and a rent limitation agreement is signed and recorded on title. All such changes are subject to the review and approval of the Lender's Loan Committee.

Change from owner-occupant to owner-investor occurs when an owner-occupant decides to move out and rent the assisted property, or if the property is sold to an investor. If the owner converts any assisted unit from owner occupied to rental, the loan is due in full.

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

## County of Monterey First Time Home Buyer Program Manual

### 6. Requests for Subordinations:

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

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

### 7. Process for Loan Foreclosure:

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

When a senior lien holder starts a foreclosure process and the Lender is notified via a Request for Notice of Default, the Lender, who is the junior lien holder, may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount or payoff amount must be obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges and fees to date. Lender must confer with Borrower to determine if, upon paying the senior lien holder current, the Borrower can provide future payments. If this is the case then the Lender may cure the foreclosure and add the costs to the balance of the loan with a Notice of Additional Advance on the existing note.

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

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

### 8. Lender as Senior Lien holder

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

## County of Monterey First Time Home Buyer Program Manual

- 1) *Can the loan be cured and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?*
- 2) *Can the Borrower refinance with a private lender and pay off the Lender?*
- 3) *Can the Borrower sell the property and pay off the Lender?*
- 4) *Does the balance warrant foreclosure? (If the balance is under \$5,000, the expense to foreclose may not be worth pursuing.)*
- 5) *Will the sales price of home "as is" cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?*

If the balance is substantial and all of the above factors have been considered, the Lender may opt to initiate foreclosure. The Borrower must receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification must include the exact amount of funds to be remitted to the Lender to prevent foreclosure (such as, funds to bring a delinquent BMIR current or pay off a DPL).

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

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



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ATTACHMENT F

SELLERS LEAD-BASED PAINT DISCLOSURE

Disclosure of Information on Lead-Based Paint and/or Lead-Based Paint Hazards Lead Warning Statement

Every purchaser of any interest in residential real property on which a residential dwelling was built prior to 1978 is notified that such property may present exposure to lead from lead-based paint that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage, including learning disabilities, reduced intelligence quotient, behavioral problems, and impaired memory. Lead poisoning also poses a particular risk to pregnant women. The seller of any interest in residential real property is required to provide the buyer with any information on lead-based paint hazards from risk assessments or inspections in the seller's possession and notify the buyer of any known lead-based paint hazards. A risk assessment or inspection for possible lead-based paint hazards is recommended prior to purchase.

Seller's Disclosure

- (a) Presence of lead-based paint and/or lead-based paint hazards (check (i) or (ii) below):
(i) \_\_\_ Known lead-based paint and/or lead-based paint hazards are present in the housing (explain).
(ii) \_\_\_ Seller has no knowledge of lead-based paint and/or lead-based paint hazards in the housing.

- (b) Records and reports available to the seller (check (i) or (ii) below):
(i) \_\_\_ Seller has provided the purchaser with all available records and reports pertaining to Lead-based paint and/or lead-based paint hazards in the housing (list documents below).
(ii) \_\_\_ Seller has no reports or records pertaining to lead-based paint and/or lead-based paint hazards in the housing.

Purchaser's Acknowledgment (initial)

- (c) \_\_\_ Purchaser has received copies of all information listed above.
(d) \_\_\_ Purchaser has received the pamphlet Protect your Family from Lead in Your Home.
(e) \_\_\_ Purchaser has (check (i) or (ii) below):
(i) \_\_\_ received a 10-day opportunity (or mutually agreed upon period) to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards; or;
(ii) \_\_\_ waived the opportunity to conduct a risk assessment or inspection for the presence of Lead-based paint and/or lead-based paint hazards.

Agent's Acknowledgment (initial)

- (f) \_\_\_ Agent has informed the seller of the seller's obligations under 42 U.S.C. 4852d and is aware of his/her responsibility to ensure compliance.

Certification of Accuracy

The following parties have reviewed the information above and certify, to the best of their knowledge, that the information they have provided is true and accurate.

Seller Date Seller Date
Purchaser Date Purchaser Date

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Agent

Date

Agent

Date

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ATTACHMENT G

HOMEBUYER ASSISTANCE PROGRAM SAMPLE LEAD-BASED PAINT CONTRACT  
CONTINGENCY LANGUAGE

This contract is contingent upon a risk assessment or inspection of the property for the presence of lead-based paint and/or lead-based paint hazards at the Purchaser's expense until 9 p.m. on the tenth calendar-day after ratification. This ending date is: \_\_\_\_\_. [Insert date 10 days after contract ratification or a date mutually agreed upon]. (Intact lead-based paint that is in good condition is not necessarily a hazard. See the EPA pamphlet "Protect Your Family From Lead in Your Home" for more information.)

This contingency will terminate at the above predetermined deadline unless the Purchaser (or Purchaser's agent) delivers to the Seller (or Seller's agent) a written contract addendum listing the specific existing deficiencies and corrections needed, together with a copy of the inspection and/or risk assessment report.

The Seller may, at the Seller's option, within \_\_\_\_\_ days after Delivery of the addendum, elect in writing whether to correct the condition(s) prior to settlement. If the Seller will correct the condition, the Seller shall furnish the Purchaser with certification from a risk assessor or inspector demonstrating that the condition has been remedied before the date of the settlement. If the Seller does not elect to make the repairs, or if the Seller makes a counteroffer, the Purchaser shall have \_\_\_\_\_ days to respond to the counter-offer or remove this contingency and take the property in "as is" condition or this contract shall become void. The Purchaser may remove this contingency at any time without cause.

Seller: \_\_\_\_\_ Date: \_\_\_\_\_

Purchaser: \_\_\_\_\_ Date: \_\_\_\_\_

Property Address: \_\_\_\_\_

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ATTACHMENT H

SAMPLE DISCLOSURES TO SELLER WITH VOLUNTARY, ARM'S LENGTH, PURCHASE OFFER

DECLARATION

This is to inform you that (name of buyers) would like to purchase the property, located at (address), if a satisfactory agreement can be reached. We are prepared to pay \$ for a clear title to the property under conditions described in the attached proposed contract of sale.

Because Federal funds may be used in the purchase, we are required to disclose to you the following information:

- 1. The sale is voluntary. If you do not wish to sell, the buyer, thru the agency, (name of agency/Sponsor) will not acquire your property. The buyer does not have the power of eminent domain to acquire your property by condemnation (i.e. eminent domain) and the agency/Sponsor will not use the power of eminent domain to acquire the property.
2. The estimated fair market value of the property is \$ and was estimated by, to be finally determined by a professional appraiser prior to close of escrow.

Since the purchase would be a voluntary, arms length, transaction you would not be eligible for relocation payments or other relocation assistance under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), or any other law or regulation. Also, as indicated in the contract of sale, this offer is made on the condition that no tenant will be permitted to occupy the property before the sale is completed.

Again, please understand that if you do not wish to sell your property, we will take no further action to acquire it. If you are willing to sell the property under the conditions described in the attached contract of sale, please sign the contract and return it to us at:

matter, please contact at

Sincerely,

Title

Buyer

Date

Buyer

Date

Form continues on next page with Seller's Acknowledgment

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## Sample Disclosures to Seller with Voluntary, Arm's Length Purchase Offer (Page 2)

### Acknowledgement

As the Seller I/we understand that the (affiliation and title of inspector) will inspect the property for health and safety deficiencies. I/we also understand that public funds may be involved in this transaction and, as such, if the property was built before 1978, a lead-based paint disclosure must be signed by both the buyer and seller, and that a Visual Assessment will be conducted to determine the presence of deteriorated paint.

As the Seller, I/we understand that under the (City's or County's) program, the property must be currently owner-occupied, vacant for four months at the time of submission of purchase offer, new (never occupied), or renter purchasing the unit. I/we hereby certify that the property is:

Vacant at least 4 months;  Owner-occupied;  New; or  Being Purchased by Occupant

*I/we hereby certify that I have read and understand this "Declaration" and  a copy of said Notice was given to me prior to the offer to purchase. If received after presentation of the purchase offer, I/We choose  to withdraw or  not to withdraw, from the Purchase Agreement.*

\_\_\_\_\_  
Seller

\_\_\_\_\_  
Date

\_\_\_\_\_  
Seller

\_\_\_\_\_  
Date

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### ATTACHMENT I

#### IMPLEMENTATION STEPS INSTRUCTIONS TO HOMEBUYER

\_\_\_\_\_  
(Name of Sponsor)

- A. Participant works with lender of choice to obtain the primary lender's pre-qualification letter.
- B. Participant works with real estate agent to select home. Program disclosures are reviewed with agent for presentation to seller. Preference will be given to vacant or owner occupied homes rather than tenant occupied.
- C. Participant selects home and enters into a purchase contract (contingent upon receiving Program loan approval). Lender provides the Program Operator with a copy of:
- real estate sales contract
  - residential loan application
  - credit report
  - verified income documentation
  - disclosure statement
  - proof of personal funds for participation in program
  - breakdown of closing costs
  - structural pest control clearance
  - appraisal with photos
  - escrow instructions
  - preliminary title report
- D. Program Operator reviews paper work to determine program eligibility and financing affordability for participant etc.
- E. Program Operator staff meets with qualified applicant to provide information relative to the program requirements, the lending process, and home ownership responsibilities.
- F. Program Operator has home inspected (if necessary) to meet HQS or code compliance (dependent upon the program). Notice of any deficiencies or needed corrections are given to participant's real estate agent, with recommended course of action.
- G. Program Operator requests loan approval from Sponsor's CAO (City Manager/Administrator or County Administrative/Executive Officer). Following loan approval, Program Operator prepares Deed of Trust, Promissory Note, Notice of Default, Grant Agreement, Owner Occupant Agreement with City/County, requests checks and deposits same into escrow.
- H. Escrow company furnishes Program Operator with proof of documents to be recorded, and any escrow close out information. After receipt of recorded loan documents, HUD I, Insurance Loss Payee Certification and Final Title Insurance Policy (Program Operator) closes out the loan file.

# ATTACHMENT J

## LEAD-BASED PAINT VISUAL ASSESSMENT, NOTICE OF PRESUMPTION AND HAZARD REDUCTION FORM

<b>Section 1: Background Information</b>			
Property Address:			No LBP found or LBP exempt <input type="checkbox"/>
Select one:	Visual Assessment <input type="checkbox"/>	Presumption <input type="checkbox"/>	Hazard Reduction <input type="checkbox"/>

**Section 2: Visual Assessment.** Fill out Sections 1, 2, and 6. If paint stabilization is performed, also fill out Sections 4 and 5 after the work is completed.

Visual Assessment Date:	Report Date:
Check if no deteriorated paint found <input type="checkbox"/>	

Attachment A: Summary where deteriorated paint was found. For multi-family housing, list at least the housing unit numbers and common areas and building components (including type of room or space, and the material underneath the paint).

**Section 3: Notice of Presumption.** Fill out Sections 1, 3, 5, and 6. Provide to occupant w/in 15 days of presumption.

Date of Presumption Notice:
Lead-based paint is presumed to be present <input type="checkbox"/> and/or Lead-based paint <b>hazards</b> are presumed to be present <input type="checkbox"/>

Attachment B: Summary of Presumption: For multi-family housing, list at least the housing unit numbers and common areas, bare soil locations, dust-lead location, and or building components (including type of room or space, and the materials underneath the paint) of lead-based paint and/or hazards presumed to be present.

**Section 4: Notice of Lead-Based Paint Hazard Reduction Activity.** Fill out Sections 1, 4, 5, and 6. Provide to occupant w/in 15 days of after work completed.

Date of Hazard Reduction Notice:	
Initial Hazard Reduction Notice? Yes <input type="checkbox"/> No <input type="checkbox"/>	Start & Completion Dates:

If "No", dates of previous Hazard Reduction Activity Notices:

Attachment C: Activity locations and types. For multi-family housing, list at least the housing unit numbers and common areas (for multifamily housing), bare soil locations, dust-lead locations, and/or building components (including type of room or space, and the material underneath the paint), and the types of lead-based paint hazard reduction activities performed at the location listed.

Attachment D: Location of building components with lead-based paint remaining in the rooms, spaces or areas where activities were conducted.

Attachment E: Attach clearance report(s), using DHS form 8552 (and 8551 for abatement activities)

**Section 5: Resident Receipt of Notice for Presumption or Lead-Based Paint Hazard Reduction Activity**

Printed Name:	Signature:	Date:
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**Section 6: Contact Information**

Organization:		
Contact Name:	Contact Signature:	
Date:	Address:	Phone:

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