

CITY OF BALDWIN PARK

FIRST TIME HOMEBUYERS PROGRAM GUIDELINES

I. INTRODUCTION

The City of Baldwin Park First Time Homebuyers Program has been designed to meet the needs of low to moderate-income families and individuals (hereafter sometimes called the "Borrower") who wish to purchase and occupy an affordable home.

Funds are provided as a Deed of Trust after the primary financing Deed(s) of Trust. The contribution is in the form of a deferred mortgage loan.

Money is made available through various programs. These may involve the City of Baldwin Park or the Community Development Commission of the City of Baldwin Park (the "Commission"), which has replaced the Redevelopment Agency.

II. GENERAL ELIGIBILITY REQUIREMENTS

A. Maximum Purchase Price

The maximum purchase price for a property to qualify under the First Time Homebuyers Program when utilizing HOME funds is 95% of the area median sales price as established by HUD or, if approved by HUD, by the City in accordance with federal regulations. This restriction does not apply when the funds are provided by the Commission's housing set-aside moneys. For purposes of this program, all references to the "purchase price" shall mean only the price paid by the Borrower to the seller of the property, and shall not include any other costs (such as inspection charges) or fees (such as loan processing fees) whether paid by the Borrower, the seller, or a third party. **For the most updated Maximum Purchase Price, please contact the Community Development Department.**

B. Maximum Loan Amount

The loan amount will vary based on need.

The maximum loan amount for Low Income Families is \$140,000.

The maximum loan amount for Moderate Income Families is \$100,000.

C. Characteristics of the Moderate Income Homebuyer

1. MODERATE INCOME (80% - 120% of median)

Household adjusted gross income shall be no less than 80% and no more than 120% of the median income for that size family as determined by the U.S. Department of Housing and Urban Development. Per State of California HCD, the maximum gross income table for 2004 follows:

Number of Persons in Family/Maximum Gross Income *

<u>Family Size</u>	<u>Annual Income Limit*</u>
1	\$47,200
2	\$53,900
3	\$60,700
4	\$67,400
5	\$72,800
6	\$78,200
7	\$83,600
8	\$89,000

*subject to change

2. Moderate Income Affordable Housing Cost – For moderate income households, affordable housing cost shall not exceed the product of 35 percent times 110 percent of area median income adjusted for family size appropriate for the unit as defined in Health & Safety Code § 50052.5 (h). Pursuant to subsection (b) (4) of Health & Safety Code § 50052.5, "affordable housing cost" for purposes of qualifying for participation in this program shall not be less than 28 percent of the gross income of the household.

D. Characteristics of the Low Income Homebuyer

1. LOW INCOME (not to exceed 80% of the median income)

Household adjusted gross income shall be no more than 80% of median income of family size determined by the U. S. Department of Housing and Urban Development. Per State of California HCD, the maximum gross income table for 2006 follows:

Number of Persons in Family/Maximum Gross Income *

<u>Family Size</u>	<u>Annual Income Limit*</u>
1	\$38,800
2	\$44,350
3	\$49,900
4	\$55,450
5	\$59,900
6	\$64,300
7	\$68,750
8	\$73,200

*subject to change

3. Low-Income Affordable Housing Cost – For low-income households, affordable housing cost shall not be greater than 40 percent (or such lower percentage as is required by law) of the gross income of the household. Notwithstanding the foregoing, no person shall qualify for participation in this program if the total housing costs for such person's household are less than 28 percent of the gross income of the household.

E. Property and Household Requirements

1. **Unit must be owner occupied at time of sale and for the term of the City's loan.**
2. The Borrower's household shall have sufficient income and creditworthiness to qualify for primary financing as defined by their selected lender. The household, however, could not have otherwise qualified for home purchase at that lending institution's standard housing expense to income ratio without the City/Commission's assistance.
3. The Borrower's household shall have sufficient assets to provide a minimum of 1.5% or more down payment, plus closing costs. Fannie Mae allows a maximum combined loan-to-value ratio of 95% when subordinate financing is used. FHA allows a maximum combined loan-to-value ratio of 97% when subordinate financing is used.
4. Household liquid assets shall not exceed the combined total of the Borrower's down payment, estimated closing costs, up to six months' total monthly housing costs, and an emergency allowance of \$3,000 in liquid or convertible assets.
5. The Borrower shall not have owned residential property or have owned a principal residence during the last 3 years.
6. The property must meet the minimum Housing Quality Standards and State and local Building Codes at the onset of initial occupancy/acquisition.
7. The seller/buyer is required to provide a Homeowner's warranty for the first year of occupancy.
8. Non-occupying co-signers will not be accepted.
9. This program is not designed to pay existing debt to qualify the Borrower as a buyer.
10. This loan is not provided as a down payment program. At a minimum, the Borrower will be required to contribute 1.5% of the purchase price as the down payment and to pay all closing costs.

11. Loans will be made on single-family homes (whether completely detached or as part of a 2 to 4 unit development), condominiums and townhomes within the City of Baldwin Park.

F. Determination of Adjusted Gross Income

1. In calculating adjusted gross income, all of the income of the Borrower(s) and other household members who share the same dwelling unit or share in the ownership of the unit, whether in cash or in kind, shall be considered, as set forth below:
 - a. The full amount, before any payroll deduction, of wages and salaries, overtime pay, commissions, fees, tips, and bonuses, and other compensation for personal services, provided they are normal and consistent income of the applicant;
 - b. The net income from an operation of a business or profession, as calculated by averaging the net income manifested on their federal income tax returns for the past three years;
 - c. Interest, dividends, and other net income of any kind from real or personal property;
 - d. The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum payment for the delayed start of a periodic payment;
 - e. Periodic and determinable payment in lieu of earnings, such as unemployment, worker's compensation, severance pay, and welfare assistance (NOTE: such payments may be excluded by the lending institution providing the first mortgage for purposes of underwriting, but shall be included in eligibility determinations for this program);
 - f. Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling to the extent that such payments are reasonably expected to continue;
 - g. All regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family, spouse, or other person whose dependents are residing in the unit;
 - h. Any earned income tax credit to the extent it exceeds income tax liability; and

- i. Any other income that must be reported for federal and state income tax purposes.
2. The following exceptions shall apply in the determination of adjusted gross income:
 - a. Payments received for the care of foster children;
 - b. Amounts specifically excluded by a federal or state statute from consideration as income;
 - c. Casual, sporadic, or irregular gifts;
 - d. 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 (these items shall be considered as assets for the purpose of the program);
 - e. Amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to veterans for use in meeting the costs of tuition, fees, books, and equipment.
3. The Borrower shall be required to provide federal and state income tax returns for the prior three years and verification of current income to document eligibility for the program.

G. Assets

1. For purposes of this program, the following types of assets shall be considered in eligibility determination:
 - a. Cash savings;
 - b. Marketable securities, stocks, bonds, and other forms of capital investment, including tax exempt securities other than retirement plans (e.g. IRA's, 401K's, KEOGH's, SEP's, etc.);
 - c. Inheritance, lump-sum insurance payments, or similar payments, already received;
 - d. Settlements for personal or property damage, already received;
 - e. Equity in real estate, except as stated below; and
 - f. Other personal property which is readily convertible into cash.

2. The following are not considered assets:
 - a. Ordinary household effects, including furniture, fixtures, and personal property;
 - b. Automobiles used for personal use; and
 - c. Depreciable property used in a business, which generates a significant proportion of household income.

NOTE: The City/Commission reserves all right to determine eligibility of applicant(s).

III. TERMS AND CONDITIONS

A. Terms

1. The term of the loan is 15 years. The loan must be repaid at the end of the term, or any extension thereof permitted by these Guidelines.
2. Even if the term has not expired, the loan must be repaid if the property is sold or transferred during the life of the loan unless the City/Commission approves the purchaser as a person eligible for this program. Eligibility will involve consideration of both the income level of the purchaser and the "affordability" of the property at the proposed sale price. This program anticipates that it is likely, if the property is sold at the market rate, that the Borrower will be required to repay the loan made under this program plus interest to the City/Commission.
3. Repayment of the principal sum shall also be required if the Borrower transfers the property by other than a sale (e.g., the house becomes a rental), the first or second mortgage is refinanced to obtain money, the Borrower ceases to occupy the property as his/her principal residence, or the property transfers due to a probate proceeding.
4. The loan shall be documented by a promissory note, covenants, conditions and restrictions, a deed of trust on the property, and such other documents as are required by law.
5. The City/Commission loan will generally be secured by the second deed of trust. However, the City/Commission on a case-by-case basis will review and may approve a second deed of trust securing a loan from other City-, federal- or state-funded programs (i.e. City of Baldwin Park's Residential Rehabilitation Loan Program, the Lease to Purchase Program, CalHome and VA Loans), in which case the City/Commission loan under this program will be secured by a third deed of trust. The City/Commission will not consider a third trust deed position to any non-government program.

6. The property will be subject to restrictions on re-sale as described in Section G, below, which may exceed the term of the loan, and apply even after repayment has occurred.
7. The loan term will be extended 5 years at a time, if proper documentation is provided by the Borrower which shows that the total adjusted annual gross income for his/her household is less than 80% of the then-applicable HUD area median income established by the Federal Government, and his/her monthly housing costs are in excess of 35% of that adjusted annual gross income divided by 12. This documentation must be submitted no later than the date 30 days prior to the date the loan is initially due, and then, if the loan is extended, 30 days prior to each new date(s) the loan is due (i.e., 30 days prior to the 15th, 20th and 25th anniversaries of the close of escrow). The documentation must be adequate as determined by the City/Commission and shall consist of filed 1040 Federal Income Tax forms or comparable documentation to show proof of income. Documentation of the extension will be required. In no event shall any extension or deferral cause the loan amount to be due and payable more than 30 years from the initial loan closing.
6. The Borrower shall maintain current payments on the first deed of trust, any second deed of trust to which the loan is subordinate, property taxes, and hazard insurance.

B. Interest

1. Interest shall accrue as follows:

<u>Period of Residency</u>	<u>Annual Interest Rate</u>
1 Day - 3 years	at= 5%
3 years +1day - 6 years	at= 4%
6 years+1day - 9 years	at= 3%
9 years+1day - 12 years	at= 2%
12 years + 1 day -15 years	at= 1%
15 years + 1 day or more	at= 0%

2. The period of residency shall refer to the period of time in which the Borrower continuously occupies the property as his/her principal residence. A year shall be a period of 365 days, commencing on the date of loan closing. The annual interest rate for each period shall apply to previous periods. For example, if the Borrower sold the property after occupying it as his/her principal residence for 5 years, the interest applicable throughout the term of the loan would be 4%. If the Borrower occupies it as his/her principal residence for the full 15 years, all interest shall be waived.

3. Interest shall accrue on all sums due and not paid when due at the rate of 10% per annum.
4. If the loan term is extended beyond 15 years, no interest shall be imposed during the extension period.

C. Recertification; City/Commission Monitoring

1. Borrower shall agree to execute the consent set forth in Attachment "A" requiring submittal of an annual affidavit of occupancy and maintenance of the exterior of the property, including lawn mowing and weeding.
2. The First Trust Deed Lender, and any permitted Second Trust Deed Lender, shall, upon receipt, provide City/Commission with any Notice of Default on taxes. Such Lender(s) shall also agree to record a Request for Notice of Default notifying City/Commission of the occurrence of an event of default under its trust deed.
3. City/Commission shall be named as beneficiary on hazard insurance policies and shall be notified of modifications or cancellations of insurance coverage.

D. Property Sales, Refinancing, Payment of Prior Mortgages and Subordination

1. Property shall not be sold for less than the sum of the existing liens, encumbrances, and interest, including property tax liability, without the express written consent of the City/Commission.
2. Refinancing shall be allowed where the Borrower will repay in full the loan plus the interest due as specified in the loan documents, provided, however, that no cash out refinancing which would increase the amount of the First Trust Deed, or any permitted Second Trust Deed, on the property will be permitted.
3. Requests for loan subordination or transfer of the property to a new low/moderate-income buyer shall be considered on a case-by-case basis. See Section H.

E. Violations and Penalties

Upon the City/Commission determining that the Borrower willfully and knowingly made a false statement or representation, or has knowingly failed to disclose a material fact, for the purpose of qualifying for the program or in completing certifications, affidavits, or recertification documents, the City/Commission shall demand as liquidated damages full repayment of the principal on the loan plus the City/Commission's share of appreciation in the equity of the property. Said sum shall be immediately due and payable and shall be deemed secured by the deed of trust in favor of the City/Commission.

F. Evaluations

Each Borrower shall be afforded the opportunity to comment on the processing and administration of this program.

G. Resale Obligations and Restrictions

1. Except as set forth in paragraph 4, below, if the property is rented, sold, transferred, or a change in title occurs within 15 years from initial purchase, the principal of the loan together with interest at a rate based upon the number of years the loan has been outstanding, as described in Section III. B., above, will be immediately due and payable.
2. Notwithstanding repayment of the loan, if Redevelopment Set-Aside Funds have been used to make the loan, the property shall remain subject to affordability requirements for a total term of forty five (45) years from the date the loan was made (i.e., the close of escrow). This will require any transfer of the property to be to a person of "low" or "moderate" income and the purchase price to such person to be a price which causes monthly housing cost for such person to be "affordable." The affordability covenant will be established through the deed of trust to run with the land.

To release the affordability requirement, in addition to any loan amount then due, the property owner (whether the Borrower or a subsequent owner) must pay to the Commission an amount equal to the Commission's proportionate share of equity in the property (i.e., the amount by which the value of the property at that time exceeds the sum of the initial purchase price plus any expenditures on improvements made by the Borrower). The Commission's proportionate share is determined by dividing the loan amount by the initial purchase price of the Property. For example, if a property originally cost \$280,000 and the Commission loan was \$70,000, the Commission's proportionate share of the equity will be 25% (\$70,000 divided by \$280,000). If the Borrower made \$10,000 in improvements and the property is then worth \$350,000, the equity will be \$60,000 (\$350,000 minus \$290,000 (\$280,000 plus \$10,000)). The amount to be paid to the Commission to release the affordability covenant (in addition to repayment of the loan) is \$15,000 (25% of \$60,000).

3. If HOME Funds have been used, the property shall remain subject to affordability requirements for a total term of fifteen (15) years from the date the loan was made, unless the HOME program requirements for relief from the affordability obligation have been complied with. Such requirements presently permit release of affordability requirements upon repayment of the loan.

4. Repayment of a loan may be waived, and the loan transferred to a new owner, if the City/Commission determines in its sole discretion that the purchaser meets the eligibility requirements for this program, and the property will remain affordable. In order for the City/Commission to make that determination, full and complete loan documents and an application must be submitted to the Housing Division staff. A minimum of ten (10) working days from the time the application is deemed complete is required to determine eligibility before the new buyer can receive the transfer loan.

H. Financing or Refinancing a First (or Approved Second) Loan

1. Before the City will provide a Borrower with funds for a property, and before a Borrower may refinance a loan which is superior to the City/Commission loan for any purpose, the proposed lender must submit the following documents to the Community Development Commission/Housing Department of the City of Baldwin Park:
 - a. Copy of current application form
 - b. Copy of appraisal
 - c. Verification of employment
 - d. Demand on existing mortgage, if applicable
 - e. Estimated closing statement
 - f. Terms of new loan
 - g. Current credit report
 - h. Preliminary title report

In addition, the property owner must submit an explanation of his/her purpose in refinancing, if applicable.

2. The City's/Commission shall evaluate the information to determine conformance with the following standards:

Principal

The loan will not cause the loan-to-value ratio to exceed 95% loan-to-value, or the original loan-to-value at time of property purchase, whichever is lower, including all loans on the property. The value must be determined by an appraisal, which may be one prepared by the proposed lender. The principal on any refinanced loan will not be increased. The result of refinancing will be to lower the monthly payment and not to tap equity for spending. Reasonable excess funds, if available, can be used for escrow and points. A certified copy of the preliminary loan closing/settlement statement and final settlement must be provided after escrow closes. There will not be any major differences.

Interest Rate

All loans must be at a fixed interest rate, **30 or 15 year amortization**. The rate will not be variable or adjustable.

Payment Rate

If the loan is being refinanced, the new payment must be lower than the original payment.

Preliminary Title Report

The preliminary title report must be provided with the application and again prior to loan closing. This will show only the new loan or loans (if a first and approved second are being financed or refinanced) and the City/Commission loan in second (or, if approved, third) position. All taxes will be current and there will be no other liens or encumbrances.

No Cost to City/Commission

The Borrower will bear all costs connected with the transaction.

Monitoring Requirements

No approval shall be granted unless the Borrower has cooperated with the City/Commission and returned the City's/Commission's Annual Occupancy Monitoring documents. For instance, the Borrower must be occupying the home as his/her primary residence and, therefore, not have rented the property to others. In addition, exterior property maintenance will be up to City Code and the property will have no Code Enforcement violations.

3. The lender shall provide certified copies of all documents relating to the loan to the Housing Department. The lender will also prepare a Request for Notice for the City/Commission in the event the senior loan defaults. The Housing Department staff will review and approve any required subordination agreement. The subordination agreement will be approved and executed by the Executive Director if City/Commission criteria are satisfied.

IV LOAN PROCEDURES

- A. The potential homebuyer contacts a lender (or lenders, if the second is a governmental entity) of his/her choice to be pre-qualified.
- B. The senior lender(s) contacts the City of Baldwin Park to receive City/Commission guidelines.
- C. The senior lender(s) returns a complete loan package (including the City/Commission's application) to the City/Commission. A request for an inspection on the proposed property should also be submitted to the City/Commission prior to submitting a loan package (via fax) or included with the loan package.
- D. The City inspects the property, which must meet the minimum Section 8 Housing Quality Standards and City Building Codes at the onset of initial occupancy/acquisition. The City inspector will notify the senior lender(s) of approval/denial and notes of any findings.

- E. Once the property has passed inspection and the package is complete, the City/Commission loan committee will approve/deny the request for subordinate financing.
- F. After approval/denial of the loan, the senior lender(s) will be notified. If approved, the senior lender(s) will be informed to proceed with loan documents and the City/Commission will simultaneously prepare the necessary City/Commission loan documents (e.g., the Promissory Note and Second or Third Trust Deed) and request for funding.
- G. The approved Borrower(s) sign the City/Commission's Loan documents at the Housing Department. The signed loan documents and funds will be forwarded to the escrow for closing.