

PARADISE REDEVELOPMENT AGENCY

**First-Time Homebuyer
Program Guidelines**

July 2010

FIRST-TIME HOMEBUYER PROGRAM GUIDELINES

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Paradise Redevelopment Agency

FIRST-TIME HOMEBUYER PROGRAM GUIDELINES

1.0. PURPOSE

The Paradise Redevelopment Agency First-Time Homebuyer Program ("Program") provides assistance in the form of a deferred payment "silent" second priority loan as "Gap" financing toward the purchase price and closing costs of affordable housing units that will be occupied by eligible "Homebuyers." The Program is funded by the Paradise Redevelopment Agency ("Agency") and will be administered by the Agency or its designee.

1.1. Application Process and Selection

An eligible property is any home, under the maximum sales price, in the incorporated area of the Town of Paradise that meets or exceeds local codes. Eligible Homebuyers will be qualified on a first-come, first-served basis, *generally* according to the following schedule:

NOTE: Homeownership training, offered through the Town, is required. All applicants will be counseled about the home buying process and the responsibilities and benefits of home ownership.

- A. Homebuyer contacts a Town-certified lender of choice to obtain the primary lender's pre-qualification.
- B. Applicant(s) applies for program funding at the Business & Housing Services Dept. and provides sufficient supporting documentation. Town performs an in-house income analysis to determine the homebuyer's eligibility. A *Letter of Eligibility* is sent to Applicant, with copy to Lender, along with various documents which will need Applicant's completion and signature(s).
- C. Once eligibility have been determined, Applicant(s) works with Town-certified real estate agent of choice to select home and enters into a purchase contract, contingent upon receiving loan approval by the Town.

1.2. The Home Purchase Process

The following is a simplified example of how the Program works.

- A. Once the *Letter of Eligibility* has been received, the Homebuyer chooses a certified real estate agent of choice to help them select a home.
- B. The housing unit selection process is conducted by the Homebuyer. A purchase agreement is drawn up and the Disclosure To Seller with Voluntary, Arm's Length Purchase Offer is signed by both the buyer and seller.
- C. When a purchase agreement is accepted by both parties, an escrow will be opened and the realtor begins scheduling the required inspections.
- D. Upon receipt of an accepted purchase agreement, the lender will process their loan and send their loan package to the Agency.

- E. Upon receipt of the primary lender's loan package from the Lender and any required inspections, the Agency will review the loan for compliance with Program guidelines, and submit the package and recommendation to the Loan Committee, or their designees, for approval or denial. The Agency provides Homebuyer with a decision letter. If the application is denied, the Homebuyer receives a copy of the Agency's appeal procedures.
- F. When escrow is ready to close, the Agency will send Program loan instructions to the Title Company. The Agency shall be named as an additional loss payee on fire, flood, if required, and extended coverage insurance for the length of the Program loan and in an amount sufficient to cover all encumbrances or full replacement cost of the housing unit.
- G. The Agency submits loan documents to the Escrow Agent.
- H. Escrow Agent prepares both the primary loan and the Program loan documents for execution and returns them to Agency for final review. Upon final Agency approval, an Agency check will be delivered to the Escrow Agent.
- I. Escrow closes, and the documents are recorded with the County. The Agency and the Homebuyer receive copies of the recorded loan documents.
- J. Homebuyer moves into their home.
- K. Agency sets up a monitoring procedure for annual review of Homebuyer's conformance with terms of the loan.

1.3. Homebuyer Costs

- A. Homebuyers (as defined in Section 2.2) must document that they have the funds necessary for down payment and closing costs as required by the primary lender and the Agency.
- B. Homebuyer funds shall be applied to the purchase price of the home in the following order:
 - 1. Down payment - Minimum Requirement: 2% of sales price up to a maximum requirement of \$5,000. Note: This requirement applies regardless of the primary lender's down payment requirements.
 - 2. To the extent possible, after satisfying the down payment, Homebuyer funds shall be applied to payment of the appraisal fee, credit report costs, loan origination fees, discount points customary to Homebuyer closing costs, Homebuyer's customary portion of the escrow fees, title insurance, and impound accounts for property taxes and insurance.
 - 3. After items 1 and 2 above are satisfied, any balance of Homebuyer funds may be applied either to the purchase price or to reduce the interest rate of the primary loan as appropriate.

- C. If the items in B.2 cannot be satisfied with Homebuyer funds, the Agency may provide Program loan assistance in amount not to exceed the remaining balance and not to exceed the maximum loan-to-value of 100%.

1.4. Homebuyer Education

Buying a home can be one of the most confusing and complicated transactions anyone can make. Providing the future Homebuyer with informative and relevant education and training can bring success to the Agency, the Program and, most importantly, the Homebuyer. It has been documented that first-time homebuyers that have had homebuyer education have the ability to handle problems that occur with homeownership. All Program participants are required to attend an Agency-approved homebuyer education class. The homebuyer education class may cover such topics as the following: preparing for homeownership; available financing; credit analysis; loan closing; homeownership responsibilities; home maintenance; and loan servicing.

1.5. Conflict of Interest Requirements

No Agency or Town officer or employee who in the course of his or her duties is required to participate in the formulation of, or to approve plans or policies for, the redevelopment of a project area shall acquire any interest in any property included within a project area within the Town. Notwithstanding any other provisions of law, an officer, employee, consultant, or agent of the Agency or Town for personal residential use, may purchase or lease property within a project area. Any such officer or employee who purchases or leases such property shall immediately make a written disclosure to the Agency and the City Council, which disclosure shall be entered on the minutes of the Agency. Any such officer or employee shall thereafter be disqualified from voting on any matters directly affecting such a purchase, lease or residency. Failure to so disclose constitutes misconduct in office.

1.6. Non-Discrimination Requirements

The Program is administered in accordance with the Agency's commitment to non-discrimination and applicable Federal and State regulations. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity funded in whole or in part with Agency funds on the basis of his or her religion or religious affiliation, age, race, color, creed, gender, sexual orientation, marital status, familial status (children), physical or mental disability, national origin, or ancestry, or other arbitrary cause. Homebuyers needing assistance or accommodations to complete the application process will be afforded such assistance/accommodation.

2.0 APPLICANT QUALIFICATION

2.1. Current Income Limits

All applicants must certify that they meet the household income eligibility requirements. The income limits in place at the time of application will apply when determining applicant income eligibility. All applicants must have incomes at or below 120% of the County's area median income (AMI), adjusted for household size, as published annually by the California Department of Housing and Community Development.

2.2. Definitions

- A. “Household” means one or more persons who will occupy a housing unit.
- B. “Household Income” is the annual gross income of all adult household members that is projected to be received during the coming 12-month period, and will be used to determine program eligibility. For those types of income counted, gross amounts (before any deductions have been taken) are used, and the types of income that are not considered would be income of minors or live-in aides. Certain other household members living apart from the household also require special consideration. The household’s projected ability to pay must be used, rather than past earnings, when calculating income.
- C. “Homebuyer” means an individual who meets the income eligibility requirements and:
 - 1. Has been a resident of the Town of Paradise or its Sphere of Influence for at least the last 12 months prior to applying for assistance. A full-time, permanent job in the Town of Paradise, and with a Paradise employer, fulfills the residence requirement.
 - 2. Is not currently on title to real property and has not owned a home during the three-year period before the application for Program assistance, except that the following individuals may not be excluded from consideration as a Homebuyer:
 - a. 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;
 - b. 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
 - c. An individual who owns (and is planning to sell the unit as part of purchasing a home on real property) or owned, as a principal residence during the three-year period before the purchase of a home with Program assistance, a dwelling unit whose structure is:

- 1) not permanently affixed to a permanent foundation in accordance with local or state regulations; or
- 2) 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.

Documentation of Homebuyer status will be required for all Homebuyers.

2.2. Income Qualification Criteria

Projected Household Income of the Homebuyer will be used to determine whether the Homebuyer is above or below the income limits established by the Agency. Income will be verified by reviewing and documenting tax returns, copies of wage receipts, subsidy checks, bank statements and third party verification of employment forms sent to employers. All documentation shall be dated within six months prior to loan closing, kept in the applicant file and held in strict confidence.

- A. Assets. There is no asset limitation for participation in the Program. Income from assets is, however, recognized as part of annual income. An asset is a cash or non-cash item that can be converted to cash. The value of necessary items such as furniture and automobiles are not included.

An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including: penalties or fees for converting financial holdings and costs for selling real property. The cash value (rather than the market value) of an item is counted as an asset.

3.0. HOUSING UNIT ELIGIBILITY

3.1. Location and Characteristics

- A. Housing units to be purchased must be located within the eligible area. The eligible area is within the Town of Paradise town limits.
- B. Housing unit types eligible for the Program are new or previously owned single-family detached houses, condominiums, townhouses, units in residential loft structures or manufactured homes in common-interest developments or on a single-family lot and placed on a permanent foundation system.
- C. All housing units must be in compliance with State and local codes and ordinances.

3.2. Condition and Inspection

Once the Homebuyer has executed a purchase agreement for a housing unit and prior to a commitment of Program funds, the following steps must be taken for the housing unit to be eligible for purchase under the Program:

- A. The Homebuyer is encouraged to obtain a complete home inspection at the Homebuyer's cost to determine the condition of items such as the foundation, roof, doors, windows, plumbing, etc. This will ensure that the

Homebuyer will not purchase a substandard home or a home needing major repairs.

- B. A pest inspection report, free of defects, will be required for each housing unit. Smoke detectors will be installed if there are none in place. Homebuyers are encouraged to secure a homeowner's warranty policy as part of the purchase of a resale housing unit.

4.0. PURCHASE PRICE LIMITS

The purchase price limits or maximum property value at the time of acquisition shall not exceed 110 percent of the last 12 months' median sales price, as determined by the Paradise MLS, or HUD's established limits, whichever is higher. Agency staff will revise the purchase price limit in March of each year.

5.0. THE PRIMARY LOAN

Prior to obtaining a loan from the Agency, a Homebuyer must provide evidence of financing for the maximum amount the primary lender is willing to loan (the "primary loan").

5.1. Qualifying Ratios

Primary loans underwritten by FHA, USDA Rural Development, Fannie Mae, Freddie Mac, or CalHFA are acceptable to establish creditworthiness, repayment ability, and dependability of income. If none of these agencies are funding the primary loan, the lender shall qualify the Homebuyer using the following ratios:

- A. The front-end ratio shall be 30% (up to 35% for moderate-income Homebuyers). A front-end ratio is the percentage of a Homebuyer's gross monthly income (before deductions) that is available to cover the cost of PITI (loan principal and interest payment + property taxes + property insurance). *The minimum shall be 30%.*
- B. The back-end ratio shall be up to 45% (may increase with compensating factors) and is the percentage of a Homebuyer's gross monthly income that would cover the cost of PITI plus any other monthly debt payments like car or personal loans and credit card debt.

5.2. Interest Rate

The rate of interest shall be fixed and not an adjustable rate mortgage, or "ARM." If "Risk Rates" are applied (an interest rate that reflects the primary lender's loan risk), each loan shall be evaluated by the Agency on a case-by-case basis. No negative amortizations are allowed.

5.3. Loan Term

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 under the primary loan before the maturity date of the Program loan.

5.4. Impound Account

All Homebuyers are required to have impound accounts for the payment of taxes and insurance.

6.0. THE PROGRAM LOAN

6.1. Maximum Amount of Program Assistance

The maximum amount of financial assistance to a Homebuyer toward purchase of a home is based on income: \$40,000.00 (Low – 80% or less); \$30,000.00 (Median – 81% to 100%); and \$20,000.00 (Moderate – 101%-120%).

6.2. Non-Recurring Closing Costs

Non-recurring costs such as escrow, closing and recording fees, title report and title insurance, title updates and/or related costs may be included in the Program loan. Any costs paid-out-of-closing (POCs), such as credit report fee, etc., will not be included as part of the 2% down payment requirement.

6.3 Affordability Parameters for Homebuyers

The actual amount of a Homebuyer's Program subsidy shall be computed according to the housing ratio parameters specified in Section 5.1. Each borrower shall receive only the subsidy needed to allow them to become homeowners (the "Gap") while keeping their housing costs affordable. The primary lender will use the "front-end ratio" of housing-expense-to-income to determine the amount of the primary loan and, ultimately, the Program subsidy amount required, bridging the Gap between the purchase price (less down payment) and the amount of the primary loan.

6.4. Rate and Terms for Program Loans

All Program assistance to Homebuyers shall be made in the form of a deferred payment loan **subject to a shared appreciation provision upon pay off.**

- A. The Program loan term shall be for 45 years.
- B. Shared Appreciation: Shared appreciation is required to fulfill the affordability period requirement under the California Community Redevelopment Law. The payment to the Agency of a share of the appreciated value of the home is required in connection with a transfer of the home to a non-eligible Homebuyer before the end of the Program loan term or upon the Homebuyer's default under the Program loan documents. The calculation of the shared appreciation is as follows:
 - 1. Gross appreciation is calculated by subtracting the original purchase price from the current fair market value of the home (the current fair market value is as agreed to by the Homebuyer and the Agency or as determined by appraisal);
 - 2. Net appreciation is calculated by subtracting the Homebuyer's applicable closing costs in connection with a sale of the home, the Homebuyer's cash contribution in the original purchase

transaction, and the documented value of capital improvements from the gross appreciation amount;

3. The Agency would receive the portion of the net appreciation that is equal to the percentage of the purchase price of the home financed by the Program loan. That is, if the Agency loan equals 20% of the purchase price of the home, 20% of the net appreciation would be owed to the Agency.

6.5. Loan to Value Ratio

The loan-to-value ratio for the Program loan, when combined with all other indebtedness to be secured by the property, shall not exceed 100 percent of the purchase price.

7.0. PROGRAM LOAN REPAYMENT

7.1. Payments are Voluntary

Homebuyers may begin making voluntary payments to the Agency at any time, upon notification to and approval of the Agency.

7.2. Receiving Loan Payments

- A. Program loan payments will be made to:

Paradise Redevelopment Agency
Attn: Housing Coordinator
5555 Skyway
Paradise, California 95969.

- B. The Agency will be the recipient of loan payments and will maintain a financial record-keeping system to record payments and file statements on payment status. Payments shall be deposited and accounted for in an Agency Program Income Account. All loan payments are payable to the Agency. The Agency may, at its discretion, enter into an agreement with a third party to collect and distribute payments and/or complete all loan servicing aspects of the Program.

7.3. Due Upon Sale, Transfer or Non-Owner-Occupancy

- A. Loans are due upon sale or transfer of any interest in the home (other than a sale to another eligible Homebuyer) or upon the loan maturity date. The loan will be in default if the Homebuyer no longer occupies the home as his/her principal residence, or rents or leases the home, or fails to maintain required hazard insurance or fails to pay property taxes. See Attachment A on loan defaults for further information on property restrictions.
- B. Program loans are assumable only by another eligible Homebuyer.

7.4. Loan Servicing Policies and Procedures

See Attachment A for the Agency's "Loan Servicing Policies and Procedures." While the attached policy outlines a system that can accommodate a crisis that restricts the Homebuyer's repayment ability, it does not negate the Homebuyer's responsibility to

repay the Agency loan. All available means to ensure the repayment of a delinquent loan as outlined in the Loan Servicing Policies and Procedures will be pursued.

7.5. Loan Monitoring Procedures

Agency will monitor Homebuyers and their housing units to ensure adherence to Program requirements including, but not limited to, the following:

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

8.0. PROGRAM LOAN PROCESSING AND APPROVAL

8.1. Program Loan Processing

- A. Loan Processing. All Homebuyers or their representatives will be provided an eligibility packet with all the necessary forms, disclosures, information, and application. They should submit a complete application packet with all the Agency Program loan documents executed as well as all the information from the primary lender. The Homebuyer should submit: 1) accepted property sales contract with proper seller notification; 2) mortgage application with good faith estimates and first mortgage disclosures; 3) full mortgage credit report and rent verification; 4) current third party income verifications and verifications of assets; 5) homeownership education certificate. Staff will work with local lenders to ensure Homebuyers receive only the benefit from the Agency's Program needed to purchase the housing unit and that leveraged funds will be used when possible. For example, in many cases the primary lender will not require mortgage insurance with the Agency's second in place which will save on the Homebuyer's monthly payment.
- B. Credit-worthiness. Qualifying ratios are a guideline in determining a potential Homebuyer's credit-worthiness. Many factors such as credit history, amount of down payment, and size of loan will influence the decision to approve or disapprove a particular loan. The Homebuyer's credit history will be reviewed by the Agency and documentation of such maintained in the loan file. The Agency may elect to obtain a credit report or rely on a current copy obtained by the primary lender.
- C. Documents from Primary Lender. After initial review of the Homebuyer's application packet, the Agency will request any additional documents needed. Documents may be faxed but originals shall be received through the mail before Program funds are committed to escrow. Based on receipt and review of the final documents, the Agency will complete an income certification and homebuyer certification (review of credit report and income taxes). Documentation of affordability will then be verified and subsidy requirement determined.
- D. Disclosure of Program and Loan Information to Homebuyers. The Program's application and disclosure forms contain a summary of the loan qualifications of the borrower with and without Program assistance.

Housing ratios with and without Program assistance are also outlined in these guidelines. Information on the Program's application will be documented with third party verifications in the file. For example, the sales contract will provide the final purchase price and outline how much of the closing costs are to be paid by the seller, etc. The appraisal, pest and title reports will provide information to substantiate the information in the sales contract and guide the construction inspection. The Program loan application will provide current debt and housing information and will be documented by the credit report and income/asset verifications. The primary lender's approval letter and estimated closing cost statement should reflect all the information in the loan package and show any contingencies of loan funding. Reviewing the primary lender's loan underwriting documentation will provide basic information about the qualification of the applicant and substantiate the affordability provided by the Program loan. By reviewing and crosschecking all the primary lender information, the final Program loan amount approved will fall within the affordability parameters of the Program.

8.2. Completion of Underwriting and Approval of Program Loan

Once the loan approval package has been completed, the Agency will review the request and may approve it with or without conditions. Upon approval, a final closing date for escrow is set and Program funds are accessed for the Homebuyer.

8.3. Primary and Program Loan Document Signing

The Homebuyer signs the promissory notes, deeds of trust, the Resale Restriction Agreement and lending disclosure notices (Right of Rescission, Truth in Lending, etc.). The deeds of trust and Resale Restriction Agreement are recorded with the County Clerk/Recorder at the same time, and the Request for Notice of Default is also recorded with the County Clerk/Recorder.

8.4. Escrow Procedures

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

9.0. SUBORDINATE FINANCING

With today's housing costs, in order for a low-income household to obtain a home, several funding sources might be required. Subordinate loans may be used to cover mortgage costs that exceed the Program maximum loan amount. All subordinate liens must have the payments deferred and the term must be for at least as long as the term of the Program loan.

10.0. EXCEPTIONS AND SPECIAL CIRCUMSTANCES

10.1. Definition of Exception

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

10.2. Procedure for Exceptional Circumstances

- A. The Agency or its agent may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including the Agency's recommended course of action and any written or verbal information supplied by the Homebuyer.
- B. The Agency shall make a determination of the exception. The request can be presented to the Agency's loan committee and/or governing body for a decision.

11.0. REFINANCING

When a Homebuyer wishes to refinance the property, the Program loan must be repaid in full.

12.0. DISPUTE RESOLUTION AND APPEALS PROCEDURE

Any applicant denied assistance from the Program has the right to appeal. The appeal must be made in writing. Agency has 30 days to review the appeal, seek recommendations from the loan committee, or if none, the Agency's governing body, and respond in writing to the applicant.

Attachment A

Paradise Redevelopment Agency

LOAN SERVICING POLICIES AND PROCEDURES

The Town of Paradise Redevelopment Agency, hereafter called "Lender," has adopted these Loan Servicing Policies and Procedures (these "policies and procedures") in order to preserve its financial interest in properties that 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 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 senior liens; 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; and 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 amortized promissory notes. Late fees will be charged for payments received after the assigned monthly date. Lender may use a loan collection company to collect payments.

For deferred payment loans, the Lender may accept voluntary payments on the loan. Loan payments will be credited to accrued 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. If the borrower has a senior lien, the Lender encourages borrower to have impound accounts set up with that first mortgagee wherein they pay their taxes and insurance as part of their monthly mortgage payment. When the Lender's lien is in first position, the Lender may require the borrower to set up an impound account for the payment of their taxes and insurance.

3. Required Request for Notice of Default

When the Lender'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 its best interest to contact any other senior lien holders regarding the status of their loans.

4. Annual Occupancy Restrictions and Certifications

On 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, 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- and moderate-income persons or families.

6. Requests for Refinancing

When a borrower wishes to refinance the property, the Lender's loan must be repaid in full.

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, occupancy or use without approval; or 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.

Lender as Junior Lien Holder

If the Lender is a junior lien holder, and a senior lien holder starts a foreclosure process and the Lender is notified via a Request for Notice of Default, the Lender may cancel the foreclosure proceedings by "reinstating" the senior lien. 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 restructuring 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 it may choose to cure the senior lien and foreclose on the property itself. 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 its 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 before five (5) days prior to the foreclosure sale date, the senior

lien holder would then require a full pay off of the balance, plus costs, to cancel foreclosure. If the Lender determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the Lender's lien may be eliminated due to insufficient sales proceeds.

Lender as Senior Lien Holder

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

- A. Can the loan be cured and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?
- B. Can the borrower refinance with a private lender and pay off the Lender?
- C. Can the borrower sell the property and pay off the Lender?
- D. Does the balance warrant foreclosure? (If the balance is under \$5,000, the expense to foreclose may not be worth pursuing.)
- E. Will the sales price of the 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.

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