

**TOWN OF PARADISE
RESOLUTION NO. 11-45**

**A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF PARADISE AMENDING
THE LOAN SERVICING POLICIES AND PROCEDURES PREVIOUSLY ADOPTED BY
RESOLUTION 09-21**

WHEREAS, The Paradise Town Council adopted Resolution 09-21, A Resolution of the Town Council of the Town of Paradise Amending the HOME First-Time Homebuyer Program Guidelines Previously Adopted by Resolution 08-09" dated June 2009; and

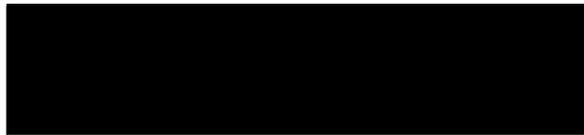
WHEREAS, the Town Council now desires to adopt minor revisions to the Loan Servicing Policies and Procedures.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF PARADISE AS FOLLOWS:

1. The Town Council hereby amends the Loan Servicing Policies and Procedures, as shown in the attached as Exhibit A.
2. This resolution is effective immediately up on adoption.

PASSED AND ADOPTED BY THE TOWN COUNCIL OF THE TOWN OF PARADISE THIS 8TH DAY OF NOVEMBER, 2011, BY THE FOLLOWING VOTE:

AYES: Steve "Woody" Culleton, Joe DiDuca, Scott Lotter and Alan White, Mayor
NOES: None
ABSENT: Tim Titus
NOT VOTING: None



Alan White, Mayor

ATTEST: 11-9-2011

Joanna Gutierrez, Town Clerk

APPROVED AS TO FORM:

Dwight L. Moore, Town Attorney

Town of Paradise
Business & Housing Services Division

**Loan Servicing
Policies and Procedures**

November 2011

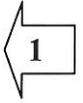
LOAN SERVICING POLICIES AND PROCEDURES

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LOAN SERVICING POLICIES AND PROCEDURES FOR TOWN OF PARADISE

The Town of Paradise, 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.

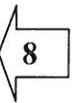


The policies and procedures are broken down into the follow areas: 1) making required monthly payments or voluntary payments on a loan’s principal and interest; 2) required payment of property taxes and insurance; 3) required Request for Notice of Default on all second mortgages; 4) loans with annual 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.

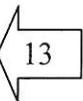
1. Loan Repayments:

The Lender will collect monthly payments from those borrowers who are obligated to do so under Notes, which are amortized promissory notes. 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 principal first and then to interest. The borrower may repay the loan balance at any time with no penalty.



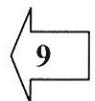
For some Owner-Occupied rehabilitation loans, the amount used may be less than the amount loaned. In which case, a loan adjustment, dated the same day as the Deed was recorded, is made to the Borrower’s account crediting the overage amount back to the original loan. A close-out letter, with the loan adjustment record, is sent to the Borrower.



The Town of Paradise 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 the Town of Paradise Recapture/Program Income Account, as required by HCD. The Sponsor will accept loan payments from borrowers prepaying deferred loans, and from borrowers making payments in full upon sale or transfer of the property. All loan payments are payable to the Town of Paradise. The Town of Paradise 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 Reconveyance.

Upon receipt of loan payoff requests, staff will:

- Verify the amount of the loan payoff, calculated by the loan program



- Advise the title company or borrower of the amount due
- Prepare Request for Reconveyance
- Verify receipt of final pay-off
- Deposit payment in the appropriate housing rehabilitation revolving loan fund account. If the loan was for a First-Time Homebuyer and they still occupy the home and/or the affordability period has passed, the funds are considered Program Income and can be used for any State eligible activity; whereas, if the loan was for a First-Time Homebuyer and they no longer occupy the home or the affordability period has not passed, the funds are considered Recaptured Income and must be spent on the next First-Time Homebuyer loan.
- Forward Request for Reconveyance to Department Manager for signature
- Deliver documents to the County Recorders Office for recording
- Return original Deed of Trust and Promissory Note, with a copy of the recorded Request for Reconveyance, to the Borrower

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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.

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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.

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3. Required Request for Notice of Default:

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.

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5. Required Restrictions and Noticing on Any Changes of Title or Occupancy:

Some purchase loans (specifically those using Redevelopment funds) include a Resale Restriction Agreement, whereas the home must remain affordable during the term of the Agreement. Therefore, if the home is sold, it must be sold to another low-income household if the transfer is within the Restriction time period.

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Similarly, other purchase loans (specifically those using HOME funds) include an affordability period that is determined by the amount of HOME funds contributed to the sale. Should the property be sold prior to the end of the affordability period, the returned funds will be recaptured and spend on the next low-income purchase loan.

No loans provided by Lender are assumable. However, in some limited circumstances, the original loan might be transferrable. 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).

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Change from owner-occupant to owner-occupant occurs at a sale. When a new owner-occupant is not low-income, the loan is not transferrable 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 transfer all loan repayment obligations of the original owner-occupant, subject to the approval of the Lender's Loan Committee (depends on the HCD program).

6. Requests for Subordinations:

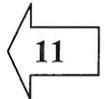
When a Borrower wishes to refinance the property, they must request a subordination request to the Lender. The Lender will only subordinate their loan when there is no "cash

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. All subordinations will be subject to the Town of Paradise Subordination Policy.

Upon receiving the proper documentation from the refinance lender, the request will be considered by the Program Operator 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.

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:

- 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.