

CALHOME 2012 FIRST TIME HOME BUYER PROGRAM GUIDELINES

OVERVIEW

The state of California CalHome Program is one of several funding sources providing assistance to eligible Borrowers under this Program. The following applies to loans made under CalHome Program.

SECTION I: APPLICANT ELIGIBILITY

A. Eligible Uses of Funds

CalHome funds may be used only for the provision of permanent secondary mortgage assistance to first time homebuyers in connection with a new primary mortgage loan for the purchase of a principal place of residence.

B. Ineligible Uses of Funds

CalHome funds may not be used for:

1. Refinancing of existing loans.
2. Recurring loan costs.
3. Payoff of all or any portion of a Borrower's consumer debt, liens or judgments.

C. Eligible Household

To be eligible to receive CalHome funds, an individual household shall:

1. Be a very-low or lower income household (income equal to or less than 80% of area median income as adjusted for household size) when considering the gross income of all household residents 18 years old or older.

| MAXIMUM QUALIFYING INCOME GUIDELINES* | | | | | | | |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Number of Persons in Household | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| \$32,450 | \$37,050 | \$41,700 | \$46,300 | \$50,050 | \$53,750 | \$57,450 | \$61,150 |

* Official State Income Limits for 2015: <http://www.dcd.ca.gov/fa/calhome>

- a. Gross income is as defined in the California Code of Regulations (CCR), Title 25, Section 6914 and is: "The anticipated income of a person or family for the 12 month period following the date of determination of income."
- b. Lender shall determine annual gross income in accordance with the Code of Federal Regulations (CFR), Title 24, Part 5, Section 5.609 (b).
- c. Income from assets is recognized as part of annual income under 24 CFR Part 5. Lender shall determine income from assets in accordance with 24 CFR 5.

2. Include as Borrowers all persons who will be or are on title to the property.
3. Be a first time homebuyer and occupy the property as a principal place of residence.

The following individual or individuals may not be excluded from consideration as a first time homebuyer under this section:

- 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; or
 - c. An individual or individuals who owns or owned, as a principal place of residence during the three-year period before the purchase of a home with CalHome assistance, a dwelling unit whose structure is:
 - 1) Not permanently affixed to a permanent foundation in accordance with state or local 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.
4. Shall qualify for a primary mortgage loan according to acceptable housing and debt ratio and credit worthiness according to the primary lender's and CalHome program guidelines.

D. Homebuyer Education

1. Homebuyer education shall be provided free of charge to all Borrowers receiving a CalHome loan in accordance with the homebuyer education curriculum.
2. A certificate of successful completion shall be issued to each prospective homebuyer receiving homebuyer education and a copy submitted to the Department.

SECTION II: PROPERTY ELIGIBILITY

A. Property location and type

1. Property purchased with CalHome funds must be located in one of the designated census tracts located within the City of Merced.
2. Property type must be a single-family housing unit in one of the designated census tracts located within the City of Merced.
3. Tenants who will be displaced by a sale assisted with CalHome funds may occupy property but they will not be eligible for relocation assistance under CalHome regulations.

B. Lead-Based Paint Certification

In accordance with federal regulations and the City of Merced’s policy regarding the identification and abatement of lead-based paint hazards, each residential property purchased through this Program, which was constructed before 1978, must be inspected for lead-based paint hazards. If defective paint surfaces are found through visual inspection, a Certified Lead-Based Paint Technician shall conduct a more detailed Risk Assessment of the property. If the Risk Assessment identifies deteriorated lead-based paint, it must be stabilized and/or abated prior to purchase of the property with this loan. Abatement must be performed by a certified lead based paint professional and a Clearance Inspection must be issued by the certified lead based paint professional prior to the issuance of the FTHB loan.

C. Displacement of Tenants

A home eligible for the FTHB Program Loan must be vacant or owner-occupied at the time of sale, or a tenant wishing to purchase their place of residence. If a property is occupied by a permanent tenant at the time of sale, and the sale of the residential property causes the displacement of that tenant, that property is not eligible for the CalHome loan. A permanent tenant may purchase a home he/she is currently occupying provided it meets the other eligibility requirements in this Section.

D. Code Standards

Properties purchased with the assistance of the FTHB Program must comply with Housing Quality Standards. If the property cannot be brought into compliance with code requirements prior to the close of escrow, it shall not be purchased with the assistance of the FTHB Program loan.

SECTION III: LOAN REQUIREMENTS

A. Maximum Sales Price

Maximum sales price limit based on the median home sales price and is subject to change in accordance with state and federal median home prices. Price to be verified by a qualified appraiser.

Source: <https://entp.hud.gov/idapp/html/hicost1.cfm>

B. Maximum Loan Amount

CalHome loans shall not exceed \$60,000 including Activity Delivery Fee. Eligible households must document that they have at least 1% of own funds toward the down payment or closing costs. When considered with other available financing and assistance, the loan shall be the minimum amount necessary to ensure affordable monthly housing costs as defined by the first mortgage lender. The first lender shall make the largest first loan possible given the ability of the Borrower to repay in order to keep the CalHome loan amount at the minimum amount necessary.

C. Loan Documentation

All CalHome loans shall be evidenced by the following documents and provisions:

1. Promissory Note (attached hereto as Exhibit “H”) payable to City in the principal amount of the loan and stating the terms and rate of interest.
2. Deed of Trust (attached hereto as Exhibit “I”) securing the Note; this deed shall be recorded and shall secure City’s financial interest in the property.
3. Other appropriate security instrument naming City as beneficiary.
4. Request for Copy of Notice of Default.

D. Loan Terms

1. The CalHome loan term shall be 30 years, except upon the occurrence of any condition requiring repayment as noted above. When United States Department of Agriculture, Rural Housing Service (USDARHS) 502 mortgage loans are in first lien position, the CalHome loan term shall be the term of the 502 mortgage (30 to 38 years).
2. Security:
 - a. CalHome loans shall be secured by the property or leasehold interest, as applicable.
 - b. The lien securing repayment of the CalHome loan shall be subject only to liens, encumbrances and other matters of record reviewed and approved by the City.
3. Principal and interest payments shall be deferred for the term of the CalHome loan.

E. Interest

The CalHome loan term shall be 30 years at 3% simple interest, except upon the occurrence of any condition requiring repayment as noted above.

F. Loan Repayment

The CalHome loan principal and interest shall be repayable upon:

1. Sale, transfer or lease of the property.
2. Borrower’s failure to occupy the property as Borrower’s principal place of residence (Borrower must certify occupancy annually).
3. The CalHome loan maturity date.
4. The maturity date, or full repayment, of any debt secured by a lien on the Property that is senior to the CalHome deed of trust.
5. Upon default of the CalHome promissory note, deed of trust or other recorded documents of record pertaining to the property.

If it is determined by the City that repayment of the loan at maturity will cause a hardship to the Borrower, the City may, at its option, elect to:

- a) Approve a one-time additional deferral period of up to 30 years in length at 0% additional interest, or;
- b) Convert the debt (principal and accrued interest) to a 15-year amortized loan at 0% additional interest.

G. Loan Assumability

CalHome loans are not assumable unless conditions are satisfied per CalHome requirements.

H. Transfer of Interest Exceptions

The following transfers of interest shall not require repayment of the CalHome loan:

1. Transfer to a surviving joint tenant by devise, descent or operation of the law on the death of a joint tenant.
2. A transfer, in which the transferee is a person who occupies or will occupy the property, which is:
 - a. A transfer in which the spouse becomes an owner of the property.
 - c. A transfer resulting from a decree of dissolution of marriage, legal separation agreement, or from an incidental property settlement agreement by which the spouse becomes an owner of the property.
3. A transfer into an inter vivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

I. Prepayment

A Borrower may prepay the CalHome loan, in part or whole, at any time without penalty.

J. Restrictions on Sale

1. In any loan transaction in which the CalHome loan is the only secondary financing, the Borrower cannot be restricted from selling the home at its fair market value at any time.
2. Subsequent buyers, unless assisted with a CalHome loan under this Program, do not need to meet the Eligible Household requirements set forth above.
3. Resale restrictions required by other secondary financing sources used in conjunction with a CalHome loan shall prevail.

K. Loan-to-Value Limits

The loan-to-value (LTV) ratio for a CalHome loan, when combined with all other indebtedness to be secured by the property, shall not exceed 103% of the sales price.

L. Downpayment

No downpayment shall be required of an eligible Borrower in order to receive CalHome funds under this Program.

SECTION IV: OTHER FINANCING REQUIREMENTS

A. First Mortgage Underwriting Requirements

In addition to the first mortgage requirements of the primary lender, the following FTHB Program requirements shall also apply to first mortgages issued in conjunction with a FTHB second mortgage:

1. Borrower shall obtain the maximum first mortgage loan with a term and interest rate from a mortgage lender consistent with affordable housing costs as defined in herein.
2. First mortgage loans shall not include provisions for negative amortization, principal increases, balloon payments, deferred interest or temporary buy-downs. The first mortgage loan must be a 30-year fixed interest rate loan.
3. Front End Ratio:
 - a. For purposes of qualifying Borrower for a first mortgage, and as defined herein means the ratio between monthly household income and monthly housing cost, including first mortgage principal, interest, taxes and insurance.
 - b. This ratio shall not exceed that set by the primary mortgage lender.
4. Back End Ratio:
 - a. For purposes of qualifying Borrower for a first mortgage, and as defined herein means the ratio between monthly household income and monthly housing costs plus all payments on long-term installment debt.
 - b. This ratio shall not exceed that set by the primary mortgage lender.
5. Credit Worthiness Criteria:

For purposes of qualifying Borrower for a first mortgage, credit worthiness criteria shall be as established by the primary mortgage lender.

B. Appraisal

Prior to close of escrow an appraisal must be obtained which meets the following requirements:

1. The appraisal shall be prepared by a state-licensed residential property appraiser.
2. The appraisal shall use the sales of comparable properties approach to determine value.

C. Cash-Out of Escrow

Borrowers may not receive cash out of escrow from any loan package containing secondary CalHome financing.

D. Title Insurance

The Borrower shall provide City with an ALTA title insurance policy in the amount of the CalHome loan at Borrower's expense.

E. Hazard Insurance

1. Borrower must provide and maintain fire and flood (if the property is located in a 100 year floodplain) insurance in an amount at least equal to the replacement value of the improvements.
2. City must be named as an additional loss payee on the policy.

F. Financing Subordinate to CalHome Loan

1. Fees and/or charges for subordinate loan financing shall be consistent with reasonable loan origination fees for first mortgage financing as determined by the City based on industry standards.
2. Balloon payments due before the maturity date of the CalHome loan are not permitted.
3. All subordinate financing shall defer principal and interest payments for the term of the CalHome loan.