



CITY OF SONORA HOMEBUYERS' ASSISTANCE LOAN PROGRAM GUIDELINES

I. PURPOSE

The City of Sonora's Homebuyers' Assistance Loan Program provides deferred payment, "silent second", mortgages to assist low-income households in the purchase of a home within the City of Sonora. Funding for the Program is derived from the Community Development Block Grant (CDBG) Program. Financing through the City's Homebuyers' Assistance Loan Program is subject to the availability of funds and provided on a "first-come first-serve" basis.

II. POLICY

A. Applicant Eligibility

1. Applicant must be low-income, defined as having an income that does not exceed 80% of the area median incomes, adjusted for household size, (see attached Exhibit "A"). This income figure is established by the Department of Housing and Urban Development (HUD) and is adjusted annually. A "household" means all persons occupying a housing unit as their principal place of residence. Projected annual gross income of the household will be used to determine whether or not a participant is eligible for the Program. Income will be documented by reviewing tax returns, copies of wage receipts, subsidy checks or bank statements and/or third party verification of employment. Projected annual gross income is the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period. All income documentation must be dated within six months prior to loan closing. **Review attached policy for married applicants.**
2. Applicant must use the house as their principal place of residence. The entire sum of the City Loan, including any interest, will be due and payable upon the voluntary or involuntary transfer of title, contract to sell or transfer or sale of the house or when the property no longer is used as the principal residence of borrower. House can not be used as a rental property.
3. Applicant must not have been a homeowner for at least the last three years or is a divorced single parent or displaced homemaker who owned a home with a 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. 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. Dwelling units not permanently affixed to a permanent foundation in accordance with local or state

regulations will not be considered as home ownership subject to the three year requirement.

4. Applicant must meet credit and underwriting criteria to secure a loan from a commercial lender of their choice prior to receiving assistance from the City of Sonora. The terms and conditions of the commercial lender's loan will be evaluated to determine if it is affordable to borrower.
5. Non-occupant co-signers will not be required to submit income and asset documentation. Co-signers income will not be included in the household income determination. Co-signers are acceptable as long as their names do not appear on the Grant Deed or Deed of Trust.
6. The asset limitation for participation in the Program is \$300,000. Income from assets is however, recognized as part of annual income under the definition of Household Income. An asset is cash or non-cash items 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.
7. All borrowers will be required to have an impound account for insurance and taxes through their commercial lender for the life of the City's Loan.
8. Applicant must need the assistance of the Program to obtain home ownership. Need will be determined by the City of Sonora and be based upon Program Guidelines, requirements of the commercial lender and the ability of the household to meet such requirements.
9. Applicant must be able to provide personal funds equal to three percent of the purchase price of the house selected or \$3,000, whichever is greater.
10. Applicant shall cause seller to be provided with a Declaration & Acknowledgment Notice pertaining to eminent domain, property inspection, fair market value and occupancy of the house prior to making the purchase offer. If not provided prior to offer of purchase, Seller may withdraw from the Purchase Agreement after the Declaration & Acknowledgment Notice is provided.
11. Applicant shall cause City of Sonora to be named as an additional loss payee on fire, flood (if required) and extended coverage insurance for the length of the loan and in an amount sufficient to cover all encumbrances or full replacement cost of the housing unit.

B. Property Eligibility

1. House must be located within the incorporated City Limits of Sonora. Dwelling unit must be a single-family residence, duplex, condominium or manufactured home on a permanent foundation.
2. Property can include up to one rental unit. In order for the property to be eligible for the Program this rental unit must have been vacant for a period of no less than 4 months or occupied by a Low-Income Household as defined under section A(1) of

this Agreement. This rental unit will be subject to the City's CDBG Rental Property Agreement for a period of 10 years, Agreement to be recorded at the close of escrow.

3. House must be a structurally sound, existing structure or a newly constructed house that meets local code standards or for units needing rehabilitation, the required work must be completed within six months of purchase. City reserves the right to determine structural soundness and code compliance.
4. The City requires that all of the work described in Section 1 of the pest control report must be completed prior to close of escrow, even if not required by the commercial lender. Any structural work being done under the pest control report will require a building permit which is to be obtained by the property owner or a California Licensed Contractor with the proper license classification for the work being proposed. The Building Official may require additional inspections, such as roof or septic inspections.
5. Total cost of the house may not exceed \$300,000.
6. House must be vacant for at least 4 months, or owner occupied, unless the applicant is the current tenant of the property being purchased.
7. House size shall be sufficient to meet the needs of the applicant without overcrowding. Generally, this means no more than two persons per bedroom.
8. Housing inspections of the property, including a Visual Inspection for deteriorated paint and vegetation clearance inspection, will be conducted by the City Staff prior to any commitment of City Funds. The City's Building Official will inspect the house to determine if it is structurally sound and identify any code related and/or health and safety deficiencies that need to be corrected. Smoke detectors will be installed if there are none in place. A list of required repair items will be given to the homebuyer(s) and their Realtor to be negotiated with the seller.
9. The City Building Official will conduct a final inspection to assure completion of those repair items required under paragraph B(3) and B(7) above.
10. All housing units built prior to 1978 are subject to lead based paint requirements. Such homes must undergo a visual assessment to determine if the dwelling unit contains deteriorated paint. Any deteriorated paint found must be stabilized using work safe methods. Clearance must be obtained after the paint stabilization by a Department of Health Services certified LBP Risk Assessor/Inspector.
11. The Loan-to-Value Ratio for the Program requires that the City Loan combined with all other indebtedness be secured by the property and shall not exceed 100 percent of the appraised value.

C. Authorized Use of Funds, Maximum Assistance Limits and Terms

1. The Buyer is required to contribute a minimum of three percent (3%) of the purchase price of the house or \$3,000, whichever is greater, as a down payment. Buyer's funds shall be used in the following order:
 - a) To the extent possible, pay for the appraisal fee; cost of credit report; loan origination fee; discounts points; customary buyer closing costs; buyer's

customary portion of escrow fees; title insurance; and the establishment of impound accounts for property taxes and insurance.

- b) After (a) above, are all satisfied, any balance of buyer funds may be applied to either to the down payment or to reduce the interest rate.
2. If the items in 1(a) above cannot be satisfied with buyer funds, the City of Sonora may provide loan assistance to cover the remaining balance. However, the City may not provide more than 50% of the down payment required by the primary lender. The City may also provide sufficient assistance, as mortgage principal subsidy, to reduce the monthly payment for principal, interest, taxes and insurance to an affordable level of household income.
 3. By reviewing the information provided by the commercial lender, the City will determine the affordability parameters for the loan. The City loan subsidy will write down the cost of the first mortgage so that estimated housing costs do not exceed 45% of gross household income. Housing costs include mortgage payment, property taxes and property insurance. The subsidy provided by the City will not decrease estimated housing costs as a percentage of gross household income below 35%. By limiting the City loan subsidies to the affordability parameters listed above, the City will be assured that each borrower is receiving only the subsidy needed to allow them to become homeowners and keep their housing costs affordable.
 4. The down payment and/or mortgage subsidy assistance by the City will be provided at 0-5% interest, as a deferred payment loan up to \$80,000 using CDBG Funds. An additional amount of up to \$20,000 using City Redevelopment Funds may be included to assist applicants to reach the affordability parameter as described in C(3) above. The maximum loan amount is \$100,000.
 5. All loans will be due and payable in full, 31 years from the date of the secured Promissory Note. All loans will be immediately due and payable upon the sale or transfer of the property or when the property no longer is used as the principal residence of the borrower. Loans may be paid, in whole or by periodic payments, at any time without penalty.

D. Interest Rates

Interest rates on City deferred payment loans are based on total household income as follows:

- 0% - Less than 50% of median income.
- 3% - 65% to 50% of median income.
- 5% - 80% to 66% of median income.

E. Security

All City loans will be secured by a promissory note and recorded deed of trust, with notice of default, subordinate only to the loan of the commercial lender.

F. Loan Assumability

The loan is not assumable.

G. Subordination Policy

The City of Sonora's Security Instrument is only to be subject and subordinate in all respects, to the liens, terms, covenants and conditions, of the First Deed of Trust recorded prior to or concurrently with the City's Deed of Trust and/or any subsequent Deeds of Trust recorded against the property in a prior position to the City's Deed of Trust. In the event that the borrower wishes to refinance any of said Deeds of Trust the City will agree to be subordinate to the new mortgage only in the case where the borrower is not receiving any cash out by refinancing and is not increasing the original principal amount of the existing mortgage. However, additional funds may be included within the new mortgage to cover the costs associated with acquiring the loan.

III. EQUAL CREDIT OPPORTUNITY ACT

This Homebuyers' Assistance Loan Program will be implemented in ways consistent with the City of Sonora's commitment to Fair Housing. No person shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under the Program on the basis of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender or sexual orientation, source of income or other arbitrary reason.

IV. CONFLICT OF INTEREST

In accordance with Title 24, Section 570.611 of the Code of Federal regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities (including members of the loan committee and officers, employees and agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the Program shall directly or indirectly be eligible for this Program.

V. PROCEDURES

A. Marketing

Marketing activity will be directed to the general population, lending institutions, local realtors and property owners.

B. Application Process

1. Applicant contacts the City of Sonora to determine program eligibility and receive application package.
2. Applicant submits completed application and if eligible meets with City Staff to receive a program orientation. Orientation will include information relative to the Program requirements, reviewing Program Guidelines, the lending process and home ownership responsibilities.
3. Applicant works with a commercial lender of their choice to qualify for a real estate loan. If Borrower is obtaining a FHA Loan, the Borrower is subject to all of the FHA Underwriting Guidelines.
4. Applicant works with a real estate agent to select a home.

5. Applicant selects a home, provides seller with Declaration and Acknowledgment Notice for signature and enters into a purchase contract.
6. The City of Sonora encourages each homebuyer to secure a homeowner's warranty policy as part of the purchase agreement.
7. The City Building Official inspects property and City Staff will conduct a Visual Assessment to determine the presence of deteriorated paint prior to commitment of CDBG Funds.
8. Commercial lender provides the necessary documentation to the City to verify the borrower's loan approval.
9. The commercial lender, real estate agents and borrower are to provide the necessary documentation to the City to complete the loan application process. Including but not limited to:
 - ✓ Real Estate Sales Contracts & All Disclosures
 - ✓ Declaration and Acknowledgment Notice
 - ✓ Lead Base Paint Disclosure
 - ✓ Residential Loan Application
 - ✓ Credit Report
 - ✓ Preliminary Title Report
 - ✓ Verified Income Documentation
 - ✓ Disclosure Statement
 - ✓ Proof of Personal Funds for Participation in Program
 - ✓ Pest Report
 - ✓ Appraisal
 - ✓ Breakdown of Closing Costs
 - ✓ Structural Pest Control Clearance
 - ✓ Escrow Instructions
 - ✓ Certificate of Insurance
10. Upon completion of the loan package, City submits a request for loan assistance to the Community Development Committee for review.
11. Applicant is provided written notification of approval or denial, with reason and appeal procedure for denial. Any buyer applying for the Homebuyers' Assistance Loan Program has a right to appeal if their application is denied. The appeal must be made in writing. City Staff has 30 days to review the appeal, seek recommendations from the Community Development Committee and respond in writing to the participant.
12. City loan documents are prepared, provided to escrow along with escrow instructions and executed.
13. When commercial lender requirements are met, City assistance funds are deposited into escrow and escrow is closed.

14. City annually monitors file for compliance with loan requirements and property inspections will also be performed by the City Building Official on an as needed basis. Monitoring will include:

- ✓ Owner Occupancy
- ✓ Property Tax Payment
- ✓ Hazard Insurance Coverage
- ✓ Good Standing on Primary Loans
- ✓ General Upkeep of House

VI. ATTACHMENTS

Exhibit “A”: - Annual Income Asset Inclusions and Exclusions as stated in the HUD Technical Guide for Determining Income and Allowances for HOME Program

Exhibit “B”: - Married Applicants Policy

Adopted January 17, 2006



EXHIBIT “A”

Annual Income Asset Inclusions and Exclusions

This table presents the Part 5 asset inclusions and exclusions as stated in the HUD Technical Guide for Determining Income and Allowances for HOME Program (Third Edition; January 2005).

Statements from 24 CFR Part 5 – Last Modified: January 2005

Inclusions

1. Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance. Assets held in foreign countries are considered assets.
2. Cash value of revocable trusts available to the applicant.
3. Equity in rental property or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be incurred in selling the asset. Under HOME, equity in the family's primary residence is not considered in the calculation of assets for owner-occupied rehabilitation projects.
4. Cash value of stocks, bonds, Treasury bills, certificates of deposit and money market accounts.
5. Individual retirement, 401(K), and Keogh accounts (even though withdrawal would result in a penalty).
6. Retirement and pension funds.
7. Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy).
8. Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc.
9. Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements and other amounts not intended as periodic payments.
10. Mortgages or deeds of trust held by an applicant.

Exclusions

1. Necessary personal property, except as noted in number 8 of Inclusions, such as clothing, furniture, cars and vehicles specially equipped for persons with disabilities.
2. Interest in Indian trust lands.
3. Assets not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset.
4. Equity in cooperatives in which the family lives.
5. Assets not accessible to and that provide no income for the applicant.
6. Term life insurance policies (i.e., where there is no cash value).

Assets that are Part of an Active Business. "Business" does not include rental of properties that are held as an investment and not a main occupation.

INCOME LIMITS

80% of Tuolumne County Median Income – 2011
(Area Median Income - \$65,800)

1 Person	\$35,100
2 Persons	\$40,100
3 Persons	\$45,100
4 Persons	\$50,100
5 Persons	\$54,150
6 Persons	\$58,150
7 Persons	\$62,150
8 Persons	\$66,150

*(*These figures are adjusted annually)*

EXHIBIT “B”

**CITY OF SONORA
HOMEBUYERS’ ASSISTANCE LOAN PROGRAM
MARRIED APPLICANTS POLICY**

In addition to including the projected annual gross income for all adult household members (anyone over the age of 18) that is anticipated to be received during the coming 12-month period, any anticipated income from an applicants spouse shall also be included in the household income calculation whether or not the spouse is planning to occupy the residence.

The applicant’s monthly payment will be figured on total household income.