

ATTACHMENT 2

CITY OF CALISTOGA

FIRST TIME HOMEBUYER

DOWN PAYMENT ASSISTANCE PROGRAM

PROGRAM GUIDELINES



DRAFT May 2009

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First Time Homebuyer Down Payment Assistance Program Policy Guidelines

INTRODUCTION

The City of Calistoga established a Down Payment Assistance Loan Program in 2009 in to assist low and moderate income families obtain housing in the community. The program is administered by the City of Calistoga using funding from the City of Calistoga's Affordable Housing Trust Fund.

The program targets households within the low and moderate income categories (51% to 150% of area median income. Data from the 2000 Census reflects that 6% of the total household population of the City of Calistoga falls within the low income category. Of this population, over 51% are renters and would benefit from first time homeownership opportunities. Approximately 16.2% of the total household population of the City of Calistoga falls within the moderate income category. Of this population, over 53% are renters that would benefit from the assistance offered through this program.

This program allows the City to further reach General Plan directives calling for the allocation a meaningful portion of revenues from new development for use in producing affordable housing, including establishment of a first-time homebuyer program.

Market conditions within the City of Calistoga vary from year to year, although average housing prices are consistently higher than that which is affordable to families with incomes in the range of 50 to 150% of the area median income. The Down Payment Assistance loans made through the City's Affordable Housing Trust Fund assist targeted income families by reducing the amount of funds needed up front to qualify for purchase of a home, but still maintaining the affordability of the purchase. Buyers are required to provide a minimum of 2% of the purchase price of the home with the remaining balance needed to maintain affordability coming from the City's Affordable Housing Trust Fund.

The City Manager is hereby authorized to implement and enforce all provisions of the City's Down Payment Assistance Program, including the provisions of these Guidelines. All references in this program to the City Manager shall mean the City Manager of the City of Calistoga or his/her designee. All references to the City shall mean the City of Calistoga and/or its agent.

1. GENERAL PROGRAM INFORMATION

A. Program Outreach and Marketing

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach and access to the Program. No person shall, on the grounds 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 be excluded, denied benefits or subjected to discrimination under the Program. The City will ensure that all persons, including those qualified individuals with handicaps have access to the Program.

1. The Fair Housing Lender logo will be placed on all outreach materials. Fair housing marketing actions will be based upon a characteristic analysis comparison (census data may be used) of the Program's eligible area compared to the ethnicity of the population served by the Program (includes, separately, all applications given out and those receiving assistance) and an explanation of any underserved segments of the population. This information is used to show that protected classes (age, gender, ethnicity, race, and disability) are not being excluded from the Program. Flyers or other outreach materials, in English and any other language that is the primary language of a significant portion of the area residents, will be widely distributed in the Program-eligible area and will be provided to any local social service agencies.
2. The City will work closely with local real estate agents and primary lenders to explain the Program requirements for eligible housing units and homebuyers, and to review Program processes. Local real estate agents and primary lenders will also be encouraged to have their customers participate in the Program.
4. Section 504 of the Rehabilitation Act of 1973 prohibits the exclusion of an otherwise qualified individual, solely by reason of disability, from participation under any program receiving Federal funds. The City will take appropriate steps to ensure effective communication with disabled housing applicants, residents and members of the public.

B. Application Process and Selection

1. The City shall maintain a database of applicants. Each applicant is asked to complete an application form, which asks for sufficient information concerning income and employment to establish preliminary eligibility for Program participation. Incomplete applications are returned to the applicant for completion.

2. Once the completed application is received an income determination is performed to determine eligibility for the program. If the applicant is determined eligible an eligibility letter is issued.
3. The potential homebuyer is given 90 days in order to find a qualified home and begin securing a primary loan for the housing unit. If during the 90-day time frame, the potential homebuyer is unable to purchase a home, an extension may be given after income is re-verified. However, if it appears the potential homebuyer cannot participate in the Program, the reservation of funds expires.

C. Home Purchase Process

1. The following is an example of how a primary lender would analyze a homebuyer's finances to determine how much the homebuyer could afford to borrow:

Minimum Housing Cost Ratio: Borrower's monthly housing payment, including taxes, insurance, homeowner association fees, etc., must be at least 30% of their gross monthly income.

Maximum Cost Ratio: Borrower's monthly housing payment, including taxes, insurance, homeowner association fees, etc. plus monthly consumer debt payments, must not exceed 50% of the household gross monthly income. A family's overall debt ratio must not exceed 50% of the household gross monthly income. These underwriting criteria are consistent with FHA, Fannie Mae and Freddie Mac underwriting criteria.

2. Applicant submits executed standard form purchase and sale agreement to the City. The purchase and sale agreement will be contingent on the household and housing unit meeting Program eligibility requirements and receiving Program loan approval.
3. The City provides written notification to Applicant of approval or denial with reason.
4. When Primary Lender requirements are met, Program funds are deposited into escrow, with required closing instructions and loan documents.
5. At the time of escrow closing, the City of Calistoga shall 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.

D. Homebuyer Costs

1. Eligible households must document that they have the funds necessary for down payment and closing costs as required by the Primary Lender and the City. The Program's down payment requirement (below) is in place even if the Primary Lender has a lower down payment requirement.
2. Homebuyer funds shall be used in the following order:
 - a. Down payment - Minimum Requirement: The homebuyer will be required to provide a minimum of 2% of the purchase price of the unit as down payment and closing costs contribution.
 - b. To the extent possible after satisfying 1), above, appraisal fee; cost of credit report; the loan origination fee; discount points customary homebuyer closing costs; homebuyer's customary portion of the escrow fees; title insurance; and, the establishment of impound accounts for property taxes and insurance.
 - c. After a) and b), 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 necessary.
3. The City will determine the level of subsidy and affordability during underwriting of the Program's loan to make sure that it conforms to the requirements of the City's down payment assistance loan ("City funded loan")

The maximum subsidy for a City funded loan will be up to 4% of the purchase price of the home. The buyer will be required to provide a minimum of 2% of the purchase price of the unit as down payment and closing cost contribution.

E. Non-Discrimination Requirements

The Program will be implemented in ways consistent with the City's commitment to non-discrimination. 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 State 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.

2. APPLICANT QUALIFICATIONS

A. Current Income Limits

All applicants must certify that they meet the household income eligibility requirements of the program and have their household income documented. The income limits in place at the time of loan approval will apply when determining applicant income eligibility. All applicants must have incomes not to exceed 150% of the County's area median income (AMI), adjusted for household size, as published by HCD each year. See Attachment A for current Income Limits Chart.

Household: means one or more persons who will occupy a housing unit. Household size includes all unborn children in the womb.

Annual Income: Generally, the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period.

B. Income Qualification Criteria

Projected annual gross income of the applicant household will be used to determine whether they are above or below the published HCD income limits. The City and/or its agent will compare this annual gross income to the income the Primary Lender used when qualifying the household. The Primary Lender is usually underwriting to FHA or conventional guidelines and may not calculate the household income or assets in the same way as required by the Program. 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 and kept in the applicant file and held in strict confidence.

1. Household Income Definition:

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. Initial income eligibility and verification will be determined by using the Part 5 (Section 8) method for income determination, as described in the "Technical Guide for Determining Income and Allowances for the HOME Program, January 2005". Attached to the eligibility application will be an affidavit to be signed by the prospective buyer certifying that all information is true and correct.

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 and sign a certification of non-occupancy.

2. 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.

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. Third party verification will be obtained on all assets to verify cash value.

C. Definition of an Eligible Homebuyer

An eligible homebuyer means an individual or individuals or an individual and his or her spouse who meets the income eligibility requirements and is/are not currently on title to real property. Persons may be on title of a manufactured home unit, who are planning to sell the unit as part of buying a home located on real property. Documentation of homebuyer status will be required for all homebuyers. Landlord/Rental verification will be obtained & tax returns will be reviewed to confirm program eligibility.

“First-time homebuyer” means an individual or individuals or an individual and his or her spouse who have not owned a home during the three-year period before the purchase of a home subsidy assistance, except that the following individual or individuals may not be excluded from consideration as a first-time homebuyer under this definition:

1. 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;
2. 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

3. an individual or individuals who owns or owned, as a principal residence during the three-year period before the purchase of a home with assistance, a dwelling unit whose structure is:
 - a. not permanently affixed to a permanent foundation in accordance with local or state regulations; or
 - b. 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.

3. HOUSING UNIT ELIGIBILITY

A. Location and Characteristics

1. Housing units to be purchased must be located within the Calistoga city limits.
2. Housing unit types eligible for the homebuyer Program are new or previously owned: single-family detached houses, condominiums, townhomes or manufactured homes on a single-family lot and placed on a permanent foundation system.
3. All housing units must be in compliance with State and local codes and ordinances.
4. Housing units located within a 100 year flood zone will be required to provide proof of flood insurance in order to close escrow.

B. Property Standards

An inspection of the property will be done to determine if the property meets housing quality standards at the time of initial occupancy. The Housing Authority of the City of Napa will be responsible for these inspections.

An inspection of the property will be conducted in the first few weeks after the purchase agreement has been accepted. The Housing Inspector will prepare a report showing the condition of the home. Should there be any housing quality standard deficiencies these items will be brought to the attention of both the buyer and the seller. The deficiencies will be required to be remedied prior to the close of escrow transferring title of the property.

1. Housing unit size shall be sufficient to meet the needs of the homebuyer household, without overcrowding. Generally, this means not more than two persons per bedroom or living room.

4. PURCHASE PRICE LIMITS

The maximum purchase value of the single family residence cannot exceed the affordable purchase price for a household earning 150% of the Area Median Income as determined by the City.

The City will set any new Purchase Price/Value Limit figures each year as updated by Housing Authority of the City of Napa.

5. THE PRIMARY LOAN

Prior to obtaining a loan from the City, a homebuyer must provide evidence of financing for the maximum amount the Primary Lender is willing to loan (the "primary loan").

All first mortgage loans must be a minimum of a 30 year fully amortized fixed rate mortgage loan made through a commercial mortgage lender. No private loans will be allowed under this program.

City loan funds are not eligible to be used to reduce other debt in an effort to qualify a borrower for a first mortgage loan. The borrower's minimum 2% contribution is also not eligible to reduce other outstanding debt.

A. Qualifying Ratios

Primary loans underwritten by FHA, USDA Rural Development, Fannie Mae, Freddie Mac, or CalHFA will be acceptable to establish creditworthiness, repayment ability, and dependability of income.

Loan amounts required to maintain affordability will be determined in two ways.

Minimum Housing Cost Ratio: Borrower's monthly housing payment, including taxes, insurance, homeowner association fees, etc., must be at least 30% of their gross monthly income.

Maximum Cost Ratio: Borrower's monthly housing payment, including taxes, insurance, homeowner association fees, etc. plus any monthly consumer debt payments, must not exceed 50% of the household gross monthly income. A family's overall debt ratio must not exceed 50% of the household gross monthly income. These underwriting criteria are consistent with FHA, Fannie Mae and Freddie Mac underwriting criteria.

B. Interest Rate

The annual interest rate on loans made through this program is 3%.

C. Loan Term

The primary loan shall be a minimum of a 30 year fully amortized fixed rate loan.

6. THE PROGRAM LOAN

A. Maximum Amount of Program Assistance

The maximum subsidy for a City funded loan will be up to 4% of the purchase price of the home or \$15,000, whichever is less. The buyer will be required to provide a minimum of 2% of the purchase price of the unit as down payment and closing cost contribution.

B. Affordability Parameters for Homebuyers

The actual amount of a buyer's Program subsidy shall be computed according to the housing ratio parameters specified in Section 5.A. Each borrower shall receive a loan in an amount up to 4% of the purchase price of the home or \$15,000, whichever is less.

C. Rate and Terms For Program Loans

All Program assistance to individual households shall be made in the form of deferred payment (interest and principal) loan. The loans are structured as deferred payment loans for 30 years.

The total amount of the Loan, shall immediately become due and payable in accordance with the following provisions:

- (1) Default. In the event of a default by the Borrower under the Promissory Note and Deed of Trust, the borrower must pay the full loan balance plus accrued interest at the time property ceases to be used as the principal residence of the borrower.
- (2) Sale. Upon sale of the property, the borrower must pay the full loan balance plus accrued interest at the time property ceases to be used as the principal residence of the borrower.
- (3) Conversion. At the time the home ceases to be used as the principal residence of the borrower, the borrower must pay the full loan balance plus accrued interest.
- (4) Loan Maturity. At the end of the 30 year term, the borrower must pay the full loan balance plus accrued interest.

Failure to declare such amounts due shall not constitute a waiver on the part of the City to declare them due in the event of a subsequent transfer or default.

7. PROGRAM LOAN REPAYMENT

A. Receiving Loan Payments

1. Program loan payments will be made to:

City of Calistoga
Attention: City Manager
1232 Washington Street
Calistoga, CA 94515

2. The City will be the receiver of loan payments or to a loan servicing agent as maybe assigned by the City 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 a program income account. The City will accept loan payments from borrowers making payments in full upon sale or transfer of the property. All loan payments are payable to the City. The City 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.
3. Borrower may prepay all or part of the balance due under the promissory note; provided, however, that any prepayment in full must include all accrued interest due at the time of prepayment. Partial prepayments shall not require payment of accrued interest at the time of prepayment, however the total accrued interest shall be due when one of the events listed in paragraphs 6 (C) or 7 (B) occurs.

B. Due Upon Sale or Transfer

1. Loans are due upon sale or transfer of title, at the time the home ceases to be used as the principal residence of the borrower, or upon the loan maturity date. The loan will be in default if the borrower fails to maintain required fire or flood insurance or fails to pay property taxes.
2. The City's loans may or may not be assumable.

C. Loan Monitoring Procedures

The City will monitor Borrowers and their housing units to ensure adherence to Program requirements. Annually the City will mail an Annual Certification of Owner Occupancy to each Borrower to verify the Borrower's compliance with conditions contained in the Deed of Trust including certifications that property taxes, hazard insurance, and mortgage payments have been paid and are current and verification of owner occupancy. The Borrower will provide all requested documentation and information within the time frame specified by the

City.

8. PROGRAM LOAN PROCESSING AND APPROVAL

A. Loan Processing

All homebuyers or their representatives will be sent an eligibility letter with all the necessary forms and disclosures. The Homebuyer should submit an accepted property sales contract with proper seller notification. The City will work with lenders to obtain copies of the first mortgage lender's loan application, underwriter's worksheet, property appraisal, estimated closing costs, and loan approval letter.

The first mortgage 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 first mortgage 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 first mortgage lender information, the final Program loan amount approved will fall within the affordability parameters of the Program.

B. Completion of Underwriting

Once the loan approval package has been completed and a final closing date for escrow is set, Program funds will be accessed for the homebuyer.

C. Primary and Program Loan Document Signing

The homebuyer(s) sign both promissory notes, deeds of trust, and statutory lending notices, truth in lending, & etc.; the deeds of trust are recorded with the County Clerk/Recorder at the same time, and the request(s) for copy of notice of default are also recorded with the County Clerk/Recorder.

Prior to escrow closing, the escrow/title company will be required to provide the City with a copy of the primary lender's promissory note and deed of trust to verify loan amount and terms of the loan. The escrow will also be instructed to provide the City with a copy of the grant deed and final escrow settlement statement (HUD-1) immediately upon close of escrow.

D. Escrow Procedures

The escrow/title company shall review the escrow instruction provided by the Program lender and shall issue a California Land Title Association (CLTA) and the American Land Title Association (ALTA) 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 is issued to each lender 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 Program lender instructs the escrow/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).

9. SUBORDINATE FINANCING

In order for low- and moderate-income households to obtain a home with today's high costs, several funding sources may be required. The City's down payment assistance loan ("City funded loan") is required to be in no less than a third lien position.

A. Refinance of The First Lender

Subordination or refinance requests shall be processed upon submittal of a written request of the borrower to the City of Calistoga. The City Manager can approve the request provided the new first mortgage meets all the criteria of City Resolution No. 2003-099, "Criteria of Subordination of City second mortgages in the City Affordable Housing Program. (See Attachment B)

10. DISPUTE RESOLUTION AND APPEALS PROCEDURE

Any applicant denied assistance from the Program has the right to appeal. The appeal must be made in writing and addressed to the City Manager who will make a determination in writing within 30 days of receipt of the appeal. Should the applicant be denied this appeal, an appeal maybe made to the City Council who will make a determination in writing within 30 days of receipt of the second appeal. The decision of the City Council will be final.

ATTACHMENT "B"

RESOLUTION NO. 2003-099

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA, COUNTY OF NAPA, STATE OF CALIFORNIA, AMENDING RESOLUTION 2001- 094 CRITERIA OF SUBORDINATION OF CITY SECOND MORTGAGES IN THE CITY AFFORDABLE HOUSING PROGRAM

WHEREAS, the City Council adopted Resolution 2001-094 on September 4, 2001; and

WHEREAS, said resolution established criteria, which the City will subordinate current second mortgage loans granted under the City's affordable housing program; and

WHEREAS, the City Council has considered a request to amend the criteria defining subordination of existing City mortgages for affordable housing programs; and

WHEREAS, the City Council discussed the policy issues and recommendations of City staff and the Napa Valley Housing Authority staff.

NOW, THEREFORE BE IT RESOLVED that the City Council of the City of Calistoga hereby amends Resolution 2001-094 and adopts the following revised policy for the consideration of requests to subordinate the City's second mortgage on homes, which are in the City's affordable housing program:

1. All loans including City debt and imputed interest/debt on the home shall not exceed 80% of the loan-to-value ratio.
2. The refinancing of an existing first mortgage loan is eligible under this policy.
3. The value of the property shall be determined through a formal property appraisal, prepared by a licensed/registered appraiser.
4. All taxes and liens shall be current at the time of the subordination.
5. A Request for Notice of Default, requiring any mortgage lender to notify the City of any default, shall be recorded at the close of escrow with the County Recorders Office as a condition of approval of any subordination.
6. Only loans from recognized institutional lending organizations or Federally insured institutions will be considered.

7. Property owners or applicants must meet debt to income criteria, similar to Federal Home Loan Agency criteria, as developed by the Napa Valley Housing Authority and City, for all outstanding loans.
8. The property owner or applicant shall pay all costs incurred with any subordination of a City Loan under this resolution.

NOW THEREFORE BE IT FURTHER RESOLVED that the City Manager is hereby authorized to act upon subordination requests pursuant to this policy.

PASSED, APPROVED, AND ADOPTED by the City Council of the City of Calistoga at a regular meeting held this **19th of August 2003** following vote:

**AYES: Councilmember Sterk, Vice Mayor von Pohle,
Councilmember Slusser, and Mayor Alexander**

NOES: None

ABSENT: Councilmember Gingles

ABSTAIN: None

ATTACHMENT "C"

**Disclosure to Seller with Voluntary, Arm's Length Purchase Offer
DECLARATION**

This is to inform you that (name of buyers) _____ would like to purchase the property, located at (address) _____, if a satisfactory agreement can be reached. We are prepared to pay \$ _____ for a clear title to the property under conditions described in the attached proposed contract of sale.

Because Federal funds may be used in the purchase, however, we are required to disclose to you the following information:

1. The sale is voluntary. If you do not wish to sell, the buyer, _____, thru the agency, (name of agency/Sponsor) _____ will not acquire your property. The buyer does not have the power of eminent domain to acquire your property by condemnation (i.e. eminent domain) and the agency/Sponsor _____ will not use the power of eminent domain to acquire the property.
2. The estimated fair market value of the property is \$ _____ and was estimated by _____, to be finally determined by a professional appraiser prior to close of escrow.

Since the purchase would be a voluntary, arms length, transaction you would not be eligible for relocation payments or other relocation assistance under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), or any other law or regulation. Also, as indicated in the contract of sale, this offer is made on the condition that no tenant will be permitted to occupy the property before the sale is completed.

Again, please understand that if you do not wish to sell your property, we will take no further action to acquire it. If you are willing to sell the property under the conditions described in the attached contract of sale, please sign the contract and return it to us at: _____ . If you have any questions about this matter, please contact _____ at _____.

Sincerely,

Title

Buyer

Date

Seller

Date