CalHome Operations Handbook

Managing Your Contract with Success

Edmund G. Brown, Jr., Governor
State of California

Claudia Cappio, Director
Department of Housing and
Community Development

DIVISION OF FINANCIAL ASSISTANCE

Laura Whittall-Scherfee, Deputy Director

Guerdon Stuckey, Assistant Deputy Director

CalHome PROGRAM

Raymond Victor, Program Manager

Program Representatives

Rikki M. Bradley

Andrea Kennedy

Gary Pettigrew

Department of Housing and Community Development
Post Office Box 952054
Sacramento, California 94252-2054
(916) 263-2771

Website http://www.hcd.ca.gov

2014 CalHome Operation Handbook

Table of Contents

Introduction 1

Standard Agreement 3

Recipients Program Guidelines 7

Income Qualifying 11

FTHB Loan Underwriting 19

FTHB Homebuyer Education 28

FTHB Loan Closing 30

OOR Loan Underwriting 33

OOR Loan Closing 43

Disbursement Procedures 45

Loan Servicing 52

Reuse Account 55

Performance Reporting 57

Monitoring 59

Introduction to the CalHome Operations Handbook

The CalHome Program was established by SB 1656 (Alarcon), which created Chapter 6 (commencing with Section 50650) and added it to Part 2 of Division 31 of the Health and Safety Code. The CalHome Program is a homeownership program designed to make funds available to Recipients for the support of their existing homeownership programs, aimed at low- and very low-income borrowers. CalHome Program Regulations were adopted on August 15, 2003 and finalized on April 4, 2004. Some of the terms used in the CalHome Program have specific meanings defined by the program regulations and have been included in the Appendices Chapter.

The goal of the CalHome Operations Handbook ("Handbook") is to help the Recipients manage their CalHome Standard Agreement with success. The Handbook contains additional explanations for local CalHome Program management as well as necessary forms. The latest operational policies at the time of publication have been included. This handbook is a complement to the CalHome regulations and the information should be considered as guidelines for successful program management.

Jurisdictions that have successfully competed for funding in the Department of Housing and Community Development's (HCD's) 2013 CalHome Program NOFA must use this version of the Operations Handbook. Jurisdictions with earlier grants should read, review and incorporate the changes into their existing programs.

The Handbook begins with a description of the Standard Agreement components. As income-eligibility is a crucial determination in CalHome, the next Chapter is devoted entirely to this issue.

The task of producing quality loans is a balance between the "science" of gathering information and analyzing risk, and the "art" of making a judgment that gives the borrower every possible consideration be maintained. When that balance is maintained, quality loans that meet borrowers' needs for home financing without imposing excessive financial burdens will be provided. The required CalHome loan terms and underwriting requirements are explained. In addition, the Handbook also points out key elements in underwriting of both mortgage assistance and owner occupied loans. We give some insight into working with a first lien position lender and how the Recipient might structure their CalHome Program. There are also chapters (sections) on actual loan closing procedures.

The Chapter (section) on Disbursements covers the procedures and requirements for each type of activity in detail. As there are quarterly and annual reporting requirements, the Recipient will find information on requirements in a Chapter (section) on Performance Reporting.

Because the Program will result in long-term responsibilities, there are Chapters (sections) on Loan Servicing, CalHome Reuse Account requirements, and HCD monitoring of Recipient activities and accounts, both during the Standard Agreement period and in the future.

After the narrative section of the Handbook, there are additional sections for the following:

Forms – These are forms specifically required in the operation of the Recipient's CalHome activity, e.g.: draw request forms; reporting forms; borrower summary forms. They have been designed specifically to meet the needs of CalHome data collection and may not be changed by the Recipient.

Sample Documents - This includes forms that are not Program-required, but may be useful in the operation of the Recipient's CalHome activity. Other important reference material can be found here as well.

Program Regulations – The April 2004 Regulations have been included here for reference and to provide important program information supported by the Operations Handbook.

Management Memos – As the need arises, the CalHome Manager may issue Management Memos regarding changes to the CalHome program, policies, procedures, forms, etc. These memos may provide answers to commonly asked questions that arise, or contain any other information we feel is useful and important to Recipients.

The most recent revisions of these items can be found on-line at the CalHome webpage: http://www.hcd.ca.gov/fa/calhome/

THE STANDARD AGREEMENT

I. Introduction

After the Department of Housing and Community Development (HCD) issues an award under the CalHome Program, a Standard Agreement is required. "Standard Agreement" is the term the State of California uses when it enters into a funding contract with another party. In the Standard Agreement, HCD is referred to as the "State" and the award recipient is referred to as the "Contractor". However, under the Program Regulations and in this Handbook, entities that receive a CalHome award are referred to as a "Recipient".

Included in all Standard Agreements are the following parts:

- The main Standard Agreement document contains boilerplate contract language that applies to every Recipient;

- An Exhibit A to the Standard Agreement that contains information specific to each Recipient's Standard Agreement: e.g., type of activity, amount of the funds, deadlines, reporting requirements, and language binding the Recipient to requirements of the CalHome Program. It also contains any special Standard Agreement conditions ("special conditions") that apply to one or more of the Recipients, but may not apply to all of the Recipients. For example, a special condition may be a promise to only lend in a designated Redevelopment area or to employ green building methods. If there are no special conditions that apply to a Recipient, this area will state "none";

- An Exhibit B to the Standard Agreement that contains budget details and payment provisions;

- An Exhibit C to the Standard Agreement that contains State of California general terms and conditions applicable to all Recipients and which is incorporated by reference;

- An Exhibit D to the Standard Agreement that contains CalHome terms and conditions;

- In addition, there may be an Exhibit E to the Standard Agreement that includes special terms and conditions, and/or an Exhibit F to the Standard Agreement that sets out any additional provisions.

II. Standard Agreement Boilerplate

The language contained in the boilerplate (main body) is the same for every Recipient and is standardized for State and CalHome requirements. The only exception is the first page of the boilerplate that contains certain specific information relating to each Recipient and cites the CalHome legislation.

A. In the top right hand corner of the first page is the Recipient's Standard Agreement number. This number is specific to each individual award.

B. HCD's name is near the top followed by the Recipient's name.

C. The term of the Standard Agreement is located under the Recipient's name.

D. The amount of the Recipient's Award is located under the term of the Standard Agreement. If the Recipient has applied for two activities, the award may be distributed between both activities in any proportion necessary to best serve the community need. The Recipient may change their emphasis from one activity to another with advance notice to their CalHome representative.

E. There are signature blocks near the bottom for both HCD's authorized signatory and the Recipient's authorized signatory. HCD will sign the Standard Agreement after the Recipient's authorized signatory has signed it. After full execution by both parties, a scanned original, fully executed copy will be e-mailed by HCD's Contract Division to the Recipient for their file.

F. Note: The person who signs the Standard Agreement on behalf of the Recipient **must be the person or title-bearer named in the Recipient's authorizing resolution**. If the Recipient wishes to change the authorized person at any time, a new resolution will be required.

G. In the lower right-hand corner of the page is a block with the words, "Department of General Services Use Only". There will be a stamp here with a date entered. This date is the effective, or start date, of the Recipient's Standard Agreement. **Costs to be reimbursed under this CalHome Standard Agreement cannot be obligated or incurred prior to this start date**. Exceptions may be made for Homeownership Project Development Loans, per a Special Condition to be found in Attachment B of the Standard Agreement. **Remember you cannot spend funds until you have a fully executed Standard Agreement**.

The balance of the boilerplate contains standard language and covers such areas as work description, term of Standard Agreement, general disbursement procedures, etc.

III. Exhibit A

Exhibit A is where information specific to the Recipient's award is spelled out. Before the Recipient's authorized person signs the Standard Agreement, this section should be carefully reviewed to be sure it is correct.

A. Section 1: This section states the authority and purpose of the Standard Agreement. This section also describes the CalHome Program.

B. Section 2: This section incorporates the Recipient's original application into this Standard Agreement. This section also cites the type of work to be performed e.g., administration of an owner-occupied rehabilitation program or mortgage assistance program. It also discloses that the Recipient must perform the work in accordance with the CalHome Program Guidelines and the NOFA under which the Recipient applied.

C. Section 3: This section states the amount of the Standard Agreement for which the Recipient applied and received an award.

D. Section 4: This section contains the expenditure and expiration dates of the Standard Agreement. These are critical dates and the Recipient should be sure to keep these in mind as they plan their work under the Standard Agreement.

1. Program Deadlines:

   One hundred percent of funds must be expended within 36 (thirty-six) months of the *date of the award of funds* by HCD, **not the date of execution of the Standard Agreement**. All loans to borrowers must be closed by the 36th month, when the Standard Agreement expires. An extension to the Standard Agreement may be requested.

2. Homeownership Project Development Deadlines:

   a. The Recipient shall draw down CalHome funds or begin onsite construction within 22 (twenty-two) months of the award of funds by HCD.

   b. The Standard Agreement expires at the end of 36 months. Unit construction must be completed and CalHome Program mortgage assistance loans rolled-over to individual borrowers or repayment made of the CalHome loan with interest within 36 (thirty six) months of the award of funds by HCD as evidenced by the Award Letter date.

E. Section 5: This section describes the coordinator of the Standard Agreement for HCD and the address where all documents should be mailed.

F. Section 6: This section gives instructions as to whom and where any notices, reports, or other communication required by the Standard Agreement should be mailed.

G. Section 7: This section is used to spell out any requirements that only apply to a specific Recipient. These requirements are referred to as "special conditions". If there are no special conditions, this section will state "none", meaning there are no additional specific requirements for that Recipient to comply with. It is important that the Recipient read and fully understand any special conditions with which they are required to comply, prior to signing the Standard Agreement. Examples of special conditions may be restricting purchases to a designated Redevelopment Area or to homes that have incorporated the principles of Universal Design or Green Building methods.

IV. Exhibit B

Exhibit B contains the budget details and disbursement provisions.

A. Section I explains how the disbursements to the contractor will take place and the amount of funds that will be advanced at one time. It also reserves HCD's right to request copies of documentation at any time;

B. The remaining sections detail, according to the activity(ies), what documents must be submitted to HCD for review and approval prior to the first disbursement of funds.

V. Exhibit C

Exhibit C contains specific language regarding State overlay requirements e.g., nondiscrimination; drug-free workplace; and union organizing. In other words, it cites the State requirements that apply to all of the Department's Standard Agreements. The content of Exhibit C is incorporated by reference and may be found on a link provided on the first page of the Standard Agreement.

VI. Exhibit D

Exhibit D contains specific language regarding CalHome terms and conditions e.g., effective date and commencement of work; amount and form of funding; permitted uses of funds; termination and breach; and insurance. In other words, it cites the HCD and CalHome requirements that apply to all of the HCD CalHome Standard Recipients.

There is also a prevailing wage clause that applies to new construction/project development loans. If the Recipient is the contractor for the construction services, prevailing wages *are* required. However if the Recipient is administering the funds, but the construction contract is between the homeowner and the contractor, the prevailing wage clause does not apply.

Recipients' Program Guidelines

The Health & Safety Code section governing the CalHome Program, 50650-50650.7 states "The purpose of the CalHome Program established by this chapter is to support existing homeownership programs targeted at lower and very-low income households and operated by private nonprofits and local government agencies…."

Your CalHome Program Standard Agreement requires that you prepare Program guidelines governing your mortgage assistance and/or owner-occupied rehabilitation program. It is the Recipient's responsibility to provide a copy of the Recipient's loan program guidelines to the Department of Housing and Community Development (HCD) for its review and approval. These must incorporate the CalHome Program loan requirements. In some instances your Guidelines may be more restrictive than the CalHome requirements. The effect of the restriction must still meet the Cal Home requirements. The Program Guidelines should be a comprehensive and clearly written statement of your underwriting policies and procedures for mortgage assistance and/or owner-occupied rehabilitation and should include the following items:

I. Mortgage Assistance Program

A. Determination of the eligibility of the applicant and income qualifying.
B. Underwriting requirement criteria for front/back end ratios and credit must be submitted.
C. The maximum amount of the CalHome Program assistance is $60,000 per household for the current grant. This total assistance amount includes both the Activity Delivery Fees (ADF) fees as well as the loan to the borrower as evidenced by the Promissory Note. So if the Recipient claims $1,500 for Activity Delivery Fees, then the maximum loan may only be $58,500.
D. The actual amount of the loan is a decision left to the Recipient. CalHome financing is gap financing. The gap is the difference between the maximum first mortgage a low-income household can pay, plus their down payment, subtracted from the cost of a modest home. The subsidy amount will be the gap, plus non-recurring closing costs. Non-recurring closing costs may be added to the gap amount in an amount not to exceed 5% of the purchase price.
E. A description of how the amount of subsidy will be determined for each qualified borrower up to the maximum assistance limit.
F. Specification of the allowable combined loan-to-value ratio that will be used.
G. A description of the type of housing units allowed, i.e. single-family, duplex, triplex, condominium, manufactured housing, etc.

H. Specific interest rate, from 0-3%, that will be used for every loan funded from the same contract. Rates may be lower for very low income borrowers vs. low income borrowers. This is the only exception, and must be identified within your program guidelines. In lieu of a set interest rate, contingent deferred interest may be charged, which is a shared equity arrangement.
I. Source of the data for the sales/value limits that will be used to set the maximum allowable sales price for the program. The maximum sales price shall be set at 100% of the current median sales price of a single family home in your county. At a minimum, it should be reviewed annually, and in a volatile market it is recommended that the review occur more frequently. Only one source may be used for all loans in your program, but you may change the source by submitting changes of your program guidelines for review and approval.
J. The causes of acceleration.
K. The course of action for management of problem loans.
L. Specification of the terms of primary loans.
M. Specification of the terms of any subordinate financing.
N. Policy on future refinancing (rate/term only) and subordination.
O. Application procedures and management of waiting list. Preferential treatment of targeted groups such as city employees, teachers, etc. is not allowed.

II. Owner-Occupied Rehabilitation Program

A. Determination of the eligibility of the applicant and property eligibility.
B. Underwriting requirement criteria for front/back end ratios and credit worthiness must be submitted.
C. The maximum amount of the current CalHome Program assistance is $60,000 per household for the current grant. This total assistance amount includes both the Activity Delivery Fees (ADF) fees as well as the loan to the borrower as evidenced by the Promissory Note. So if the Recipient claims $1,500 for Activity Delivery Fees, then the maximum loan may only be $58,500.
D. Specify the combined loan-to-value ratios that will be used.
E. Specify the maximum after rehabilitation value that will be permitted. This shall be set at 100% of the current median sales price of a single family home in your county. At a minimum, it should be reviewed annually. Give the source of the data that will be used.
F. Submit your schedule of Activity Delivery Fees, (ADF) that will be requested.
G. Provide rehabilitation construction standards to include the following:
    1. work write-ups;
    2. the condition that work is to be performed in a professional manner;
    3. the performing of property inspections;
    4. any requirements that ensure all general contractors selected by the borrower are licensed by the Contractors' State License Board and that they maintain Workers' Compensation and Employer Liability insurance to the extent required by State law.
H. List of eligible and ineligible repairs allowed within the program. These must be shown to be connected to: 1) the correction of health issues; 2) the correction of safety issues; 3) the correction of code violations; or 4) compliance with a local ordinance.

III. Reviewed and Approved Documentation Requirements

Before any funds can be disbursed to the Recipient the following documents must have been reviewed and approved by the Department. If you have closed loans prior to review and approval of the following documents, the loans could be ineligible for reimbursement by the CalHome Program. Check sheets are located in the Forms Section to be used when developing and submitting your Program Guidelines to the Department for review and approval.

A. Recipient's Program guidelines for mortgage assistance and/or owner-occupied rehabilitation which incorporate the CalHome Program requirements;

B. Loan Servicing Plan (specify the process and policies). If a third party contractor is used, submit the contract;

C. Reuse Account Plan (specify the process);

D. Homebuyer Education Training Plan for mortgage assistance program. Include a copy of the completion certificate. If a third party contractor is used, also submit the contract and curriculum;

E. A 20 year CalHome Monitoring Agreement will be developed by HCD and sent for signature once the above items have been approved;

F. CalHome loan documents to include a copy of the Recipient's Promissory Note and Deed of Trust. These documents must contain the CalHome Loan requirements and must incorporate the CalHome citations;

G. Loan Agreements, Resale Restrictions and Regulatory Agreements cannot be incorporated to the CalHome Note and Deed of Trust. If there are resale restrictions tied to other subsidies, they must be recorded after the CalHome note and be able to be extinguished by payoff of the subordinate financing.

IV. Foreclosure Prevention

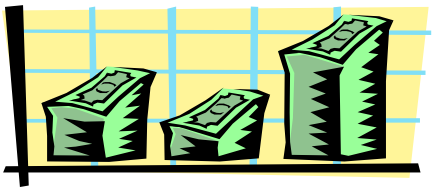
Foreclosure prevention begins with sound underwriting, homebuyer counseling and good program design. Recipients may impose tighter restrictions on loan to value or debt to income ratios than the program allows. Your program may also require the homebuyer to have sufficient reserves after they close escrow to meet unexpected expenses or have a home warranty that will cover expensive repairs. Strong program overview will also prevent foreclosures with OOR loans by not allowing inflated loans that were made for ineligible improvements. In short, the only good foreclosure is one that never happens!

A foreclosure, which is governed by statute, is the only instance in which the principal can be forgiven. If the first lender proceeds with the foreclosure, it is likely that the

CalHome loan will be wiped out The Recipient is required to document in the customer's file all the events and notifications leading up to the foreclosure action.

In other instances the homeowner may approach the Recipient directly to seek permission to sell the home with a short sale. This is an anticipated sale that will not generate enough cash to pay off the existing liens. According to CalHome regulations, principal is never forgiven except under statute, but interest may be. Therefore, the Recipient may agree to a short sale by forgiving interest, if it permits the home to be sold and the loan principal to be paid back. We recommend the Recipient become familiar with the requirements of new state laws and confer with their legal counsel as to what options they may have.

Income Qualifying



I. What Income to Include

Only U.S. citizens and qualified aliens may receive CalHome funds. The Department of Housing and Community Development (HCD) requires the use of the following method of calculating household income for the CalHome Program. The combined gross income of all household residents eighteen years old or older who will be living in the unit must be included in the determination of income. CalHome uses California Code of Regulations Title 25 Section 6914. Refer to Appendix A, Gross Income Inclusions and Appendix B, Gross Income Exclusions, at the end of this section for further guidance pertaining to what types of incomes must be included or excluded when calculating gross annual income. A live-in caretaker, if not related to the household and if paid by an outside agency, may be excluded from consideration as a household member and his/her income would normally not be used.

II. Projecting Future Income

The CalHome Program requires that, for the purpose of determining eligibility for CalHome assistance, the Recipient must project the household's annual income into the next 12 months. To do so, a "snapshot" of the household's current circumstances is used to project future income. The income verification may not be more than six months old at the time of loan funding (not at the time of loan approval). If the applicant was previously qualified for the program and more than 6 months have lapsed, they must be re-qualified. The Recipient should assume that today's circumstances would continue for the next 12 months, unless there is verifiable evidence to the contrary. For example, if a head of household is currently working for $7.00 per hour, 40 hours per week, the Recipient should assume that this household member should continue to work at the same pay scale and hours for the next year. The estimated earnings will be $7.00 per hour x 2,080 hours (40 hours a week x 52 weeks) or $14,560 per year.

This method should be used even when it is not clear that the type of income received currently will continue in the coming year. For example, assume a household member has been receiving unemployment benefits of $100 per month for 16 weeks at the time of income certification. It is unlikely that the unemployment will continue for another 52 weeks. However, because it is not known whether or when the household member will find employment, and unemployment benefits are often extended, the Recipient should use the current circumstances to anticipate gross income. Income would therefore be calculated as follows: $100 per week x 52 weeks, or $5,200 per year. The exception to this rule is when documentation is provided that current circumstances are about to change. For example, when unemployment or disability is being received for maternity or paternity leave, the Recipient must anticipate a return to the job and blend the benefits with anticipated salary from the job. Another example is when an employer

reports that an employee currently makes $7.50 an hour, but a negotiated union contract will increase this amount to $8.25 in two months or if an employee is paid minimum wage and minimum wage is increased. In such cases, income should be calculated based on the information provided. In this example, the annual income calculation would be as follows:

$7.50/hour x 40 hours/week x 8 weeks = $2,400
$8.25/hour x 40 hours/week x 44 weeks = $14,520
$2,400 + $14,520 = $16,920

In the case of self-employed borrowers, the primary lender may use an average of the previous three years, but for the purposes of CalHome qualifying, the projected earnings for the next year are used. For the purpose of self-employed individuals use the net income from operation of a business but you must add back in one-time costs and depreciation.

For a seasonal worker, the Recipient should determine the flow of pay and relate it to the paystub's year-to-date (YTD) figure. It is possible that the YTD only covers either the period of time when the season is strong and the figure is high, or during the off-season period when the figure is low. This must be considered and income adjusted to anticipate earnings for the next 12 months.

Per diem income is not counted, as it is considered a reimbursement to the employee for expenses he/she had to pay out of pocket to perform work for the employer.

More specific lists of gross income inclusions and exclusions are found in Appendices A and B at the end of this section.

III. Verifying Income

The CalHome Program requires that Recipients determine income eligibility of CalHome applicants by examining source documents (e.g., wage statements, interest statements) evidencing gross income. Recipients should compare this gross annual income to the income the first mortgage lender used when qualifying the CalHome applicant income eligibility. Undocumented income or "stated income" cannot be utilized but should be investigated and documented when possible.

It is important to do your own income qualifying for eligibility. CalHome restricts eligibility to low income homebuyers who have household income 80% or less than the county median income limit for the year in which the loan is made (as identified in the State Income Limits published on the HCD website). The first mortgage lender is usually underwriting to FHA guidelines and may not calculate the household income or assets in the same manner. The purpose of the primary lender's calculation is to determine how much the borrower may borrow. The purpose of your income qualification is to assure that the household income, including income from assets, does not exceed the 80% county median income limit and that the borrower is eligible for CalHome funds.

Recipients may develop their own verification procedures or they may use third party verification and review of documents. Under this form of verification, a third party (e.g., employer, Social Security Administration or public assistance agency) is contacted to provide information. Although written requests and responses are generally preferred, conversations with a third party are acceptable if documented through a memorandum to the file: naming the contact person; information conveyed; date of the call; and the signature of the Recipient. To conduct third-party verifications, a Recipient must obtain a written release from the household that authorizes the third-party to release the required information.

Third-party verifications are helpful because they provide independent verification of information and permit the Recipient to determine if any changes to current circumstances are anticipated. Some third-party providers may be unwilling or unable to provide the needed information. If this should happen, other types of documentation should be used, such as pay stubs and tax returns. Some third-party providers (such as banks) may charge a fee to provide the information. In such cases the Recipient should attempt to find suitable documentation without the third-party verification. For example, the past three months bank statements or a savings passbook that shows at least three months of savings.

IV. Review of Documents

Documents provided by the applicant (e.g., pay stubs, tax returns, etc.) may be the most appropriate for certain types of income and can be used as an alternative to a written third-party verification. Although easier to obtain than written third-party verification, a review of these documents often does not provide much needed information. For instance, applicant's pay stubs may not provide sufficient information about the average number of hours worked, a pattern of seasonal work, overtime, tips and bonuses, if any.

V. Assessing Information

At first glance, the income information may seem elementary. Recipients must assess all the facts underlying the income information collected. Below are some of the considerations Recipients should take into account.

It is important to understand the basis on which employees are paid (hourly, weekly, or monthly, with or without overtime or bonuses or if on commission, or seasonal work). An employee who gets paid "twice a month" may actually be paid twice a month (24 times a year) or every two weeks (26 times a year).

It is important to clarify whether overtime is sporadic or a predictable component of an employee's income.

An annual salary is counted as annual income regardless of the payment schedule. For example, if a teacher's annual salary is $30,000, this is the annual income regardless if the teacher is paid over a 9- or 12- month period.

VI. Determining Household Size

The CalHome income limits are adjusted by household size. One of the first steps in determining eligibility is to determine the size of the household. Household members are not restricted to immediate family.

Some households may include persons who are not counted as family members for the purpose of income limits and whose income, if any, is not considered when calculating gross income. Do not count the following household members when determining family size for income limits purposes: non-related live-in caretakers paid from an outside source, foster children, unborn children and children being pursued for legal custody or adoption who are not currently living with the household. A child who is subject to a shared-custody agreement, in which the child resides with the household at least 50% of the time, can be counted.

A non-title guarantor, who signs only the Promissory Note and who does not reside in the home would not be counted as a household member and their income would not be used for determining eligibility. However, the Recipient should perform due diligence to show separate residence and income and credit for the purposes of risk mitigation.

VII. Comparing Gross Income to HCD Income Limits

The Recipient must complete the CalHome Gross Income Worksheet to determine borrower's Program eligibility. Once household size and gross income information have been established and verified, the Recipient must compare the information to the published State income limits to determine if the household is eligible to participate in the CalHome Program.

To determine eligibility, the Recipient must first ensure that they have a copy of the most recent State income limits, adjusted for household size and by county. Be careful not to use the Federal Income Limits. The income limits are updated at least annually and are available at our office or on the website:

www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html

To compare the household's gross income information to the State income limits, follow these steps:

A. Find the county in which the house is located on the State income limit chart.

B. Find the column that corresponds to the number of persons in the household (i.e., household size).

C. Compare the verified income of the household with the income limit for the household size. The gross income must be low-income (which is 80% or below county median income).

VIII. Calculating Gross Income

Gross Income means all anticipated eligible income of a person or household for the 12 month period following the date of determination of income. The following terms are keys to understanding the requirements for calculating gross income.

A. ***Gross amount***. The amount earned before any deductions have been taken.

B. ***Projected to be received***. Projected earnings rather than past earnings are to be used when estimating annual income for income-eligibility purposes.

C. ***Household income***. Income from all household members age 18 and older.

IX. Treatment of Assets

In the CalHome Program, when a household has household assets in excess of $5,000, gross income shall include the greater of:

A. actual amount of income, if any, derived from all the household assets

or

B. 2.0% (Passbook rate) of the value of all such assets.

If the assets are less than $5,000 no income is counted from assets. If the assets are $5,000 or greater, count the income from all of the assets. Note it is the income from the assets that is counted, not the value of the assets. If there is no regular income from assets, the income is imputed to be 2.0%.

Note: if the assets are $5,000 or more, but they are scheduled to be liquidated for the down payment, **and** they are deposited into escrow, they need not be counted in the income verification. Any assets not used for down payment must be considered.

CalHome does not have a requirement to spend down the borrower's assets to qualify for a loan. Nor does it set a maximum amount of reserve funds.

Household assets means: checking and savings and money market accounts, stocks, bonds and other forms of capital investments. For checking accounts use the average 3-month balance. Retirement accounts are not counted as assets for CalHome Income verification, if they are not accessible to the applicant without retiring or terminating employment. The value of equity in real property, value of gems, art collections, etc. is not to be considered in the asset base because the value fluctuates until sold. However, income from the property must be separately considered. The value of necessary items such as furniture and automobiles shall be excluded. A worksheet has been provided for assistance in deriving the income based on the value of the assets. Your file must be documented for any exceptions or exclusions from the asset base.

Borrower's assets shall only be considered for the determination of income eligibility calculation. Borrowers will not be required to liquidate their assets to qualify for a CalHome Program loan. However, it is expected that the borrower invest their funds first and only rely on the CalHome loan as gap financing.

Title 25 Section 6914 Gross Income Inclusions

"Gross income" shall mean the anticipated income of a person or family for the twelve-month period following the date of determination of income.

"Income" shall consist of the following:

(a) Except as provided in subdivision (b), "Exclusions", all payments from all sources received by the family head (even if temporarily absent) and each additional member of the family household who is not a minor shall be included in the annual income a a family. Income shall include, but not be limited to:

(1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;

(2) The net income from operation of a business or profession or from rental or real or personal property (for this purpose, expenditures for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business);

(3) Interest and dividends;

(4) The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;

(5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay

(6) Public Assistance. If the public assistance payment includes an amount specifically designated for shelter and utilities which is subject to adjustment by the public assistance agency in accordance with the actual cost of shelter and utilities, the amount of public assistance income to be included as income shall consist of:

(A) The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus

(B) The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities,

(7) Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;

All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family or spouse.

Title 25 Section 6914 Gross Income Exclusions

(b) The following items shall not be considered as income:

(1) Casual, sporadic or irregular gifts;

(2) Amounts which are specifically for or in reimbursement of the cost of medical expenses;

(3) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses;

(4) Amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment. Any amounts of such scholarships, or payments to veterans not used for the above purposes of which are available for subsistence are to be included in income;

(5) The special pay to a serviceman head of a family away from home and exposed to hostile fire;

(6) Relocation payments made pursuant to federal, state, or local relocation law;

(7) Foster child care payments;

(8) The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is in excess of the amount actually charged the eligible household;

(9) Payments received pursuant to participation in the following volunteer programs under the ACTION Agency:

(A) National Volunteer Antipoverty Programs which include VISTA, Service Learning Programs and Special Volunteer Programs.

(B) National Older American Volunteer Programs for persons aged 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Program to Assist Small Business Experience, Service Corps of Retired Executive (SCORE) and Active Corps of Executives (ACE).

FIRST-TIME HOMBUYER MORTGAGE ASSISTANCE LOAN UNDERWRITING

I. Loan Underwriting

The goal of financing is to allow homebuyers to purchase homes that best match their life-style and their financial abilities. The Recipient should not commit funds to homebuyers that might put the homebuyers into homes they cannot afford, because doing so could result in foreclosure. The Recipient wants to be a successful lender, with a successful program, which will then make the homebuyer successful.

II. Loan Application

Usually the first thing the homebuyer will do either with the first mortgage lender or the Recipient is to complete a loan application. The Uniform Residential Loan Application (sometimes referred to as the 1003) is the industry standard. The application requires sufficient information concerning a borrower's financial position to enable the Recipient to make an informed judgment about the borrower's ability and willingness to repay the mortgage debt. It is usually the first piece of information obtained and it is used for preliminary qualifying. The Recipient's application should be signed and dated by the Recipient's staff as well as by the borrower.

The application should be compared to the credit report and the various verifications, as they are received, to support what the borrower has stated on the application. If there are discrepancies between the documents, the Recipient must determine what is factual and have the borrower explain the discrepancies.

In addition CalHome requires Recipients to identify if loans are made to Seniors or to Veterans. This information should be requested on the application.

Properties to be purchased in the name of a trust must meet the following conditions:

a. The borrower must hold capacity as Trustor (Settlor), Trustee, and as Beneficiary;
b. The property must be the borrower's primary residence;
c. The Recipient staff or legal department must review the trust documents and include a statement of review in the loan file;
d. The borrower should sign the loan documents both as an individual and as a Trustee.

III. First-Time Homebuyer Eligibility

The most important step is to determine if the homebuyer is eligible to participate in the CalHome program. The borrower(s) must be a first-time homebuyer as per the

CalHome definition, Section 7716 (m) prior to the purchase date. The household must be a low or very low income household.

IV. Estimated Subsidy Calculation Sheet

The Recipient should develop a subsidy calculation work sheet to determine how much subsidy the homebuyer is eligible to receive from the Program. The maximum CalHome assistance is $60,000 per household. CalHome financing is gap financing and closes the gap between the purchase price of the home, the loan amount the buyer can afford to borrow from the primary lender, and the amount of funds the buyer has for a down payment. Only the amount necessary to bridge the gap should be used, up to $60,000. There can only be one CalHome loan per household, whether it is for mortgage assistance or owner occupied rehabilitation. The $60,000 limit per household includes the allowance to the Recipient for reimbursement for Activity Delivery Fees (ADF).

For example if the Recipient requests $1,500 for ADF, the maximum loan would be $58,500.

If the CalHome loan does not close the gap, it can be layered with other subsidies such as RDA, HOME, CDBG, BEGIN, SERNA, or ADDI. However, if there are other loans, the CalHome loan must stand alone with a separate Note and Deed of Trust.

V. Debt-to-income ratios

The following information is what the Department considers “best practices”. We hope that in reading this section you will get a better idea of acceptable debt-to-income ratios and compensating factors that could be used if ratios are excessive.

Most first mortgage lenders generally use a front-end ratio ranging between 28-38% and a back-end ratio ranging from 41-46%. The FNMA standards are 28-32% front end and 36-38% back-end. These ratios are not imposed by the CalHome Program. We, realize that each loan is a separate and unique transaction. There may be other factors aside from only the ratios that can demonstrate the borrower’s ability and willingness to make timely mortgage payments. The primary lender is responsible for adequately analyzing the probability that the borrower will be able to repay the mortgage obligation in accordance with the terms of the loan. The Recipient must underwrite for the CalHome loan, and may not rely only on the primary lender’s assessment.

The above ratios are referred to as the “front-end” and the “back-end” qualifying ratios. The front-end ratio is comprised of the homebuyer’s total monthly mortgage payment (PITI – principal, interest, taxes, insurances and HOA dues) divided by the total monthly gross income (taken from the CalHome Gross Income Worksheet). This figure represents the percentage of the homebuyer’s gross monthly income that will be used for housing payments.

The back-end ratio is calculated by adding the total monthly housing payment to the homebuyer’s other on-going debt obligations such as revolving credit, installment

accounts (that have more than 10 months left to pay on), child support and alimony. This figure is divided by the total monthly gross income.

The underwriter could allow the ratios to exceed the normal range where significant compensating factors exist. The underwriter judges the overall merits of the loan application and will determine what compensating factors apply and the extent to which ratios may be exceeded. This decision should be documented in the file.

The following compensating factors are some of the more common ones:

A. The prospective homebuyer has successfully demonstrated over a minimum 12-month period that ability to pay housing costs equal to or greater than the proposed monthly housing costs for the property being purchased. This means successfully handling housing costs plus any other household debt. If the homebuyer has met their housing obligations as well as all other debts, there should be little reason to doubt the homebuyer's ability to continue to do so.

B. The prospective homebuyer is a limited user of credit <u>and</u> they show a history of being able to save money.

C. The prospective borrower has substantial non-taxable income. Special consideration to regular sources of income that are non-taxable such as child support, disability payments, retirement payments, workers compensation benefits, social security and VA benefits which are to continue should be "grossed up". Non-taxable income is worth more than taxable income because the borrower does not have to pay taxes on it. To "gross up" means the Recipient needs to determine the amount of tax savings the borrower receives. Most non-taxable income is "grossed up" by 15%. The means that the Recipient takes the amount of income x 0.15 = "the amount of tax savings". This is added to the income for a new total income.

D. Previous credit history shows that the prospective borrower has the ability to devote a greater portion of income to housing expenses. This means that the borrower is a limited credit user or may not use credit at all, thus having more income to devote towards housing.

E. There will be no more than a 5% increase in the prospective homebuyer's housing expense.

VI. <u>Credit History</u>

A credit report is the borrower's credit history. A homebuyer who has made payments on previous or current obligations in a timely manner represents a reduced risk to the lender and is more likely to be a successful homeowner. A credit report indicates the borrower's creditworthiness with previous mortgages, shows undisclosed debts, revolving accounts, installment accounts, and any judgments, garnishments, liens and/or bankruptcies that are public records. The report will show information on the current status of accounts. The status is usually coded such as "R-1", which stands for revolving accounts; "I-1", which stands for installment accounts. Close attention should

be paid to any accounts reported as a home mortgage with follow up questions to the borrower to assure that they have not owned a principal residence in the last three years.

By reviewing the report, the Recipient may also discover information that the borrower "forgot" to include on the application. There may also be items on the report that do not belong to the borrower and the Recipient or Primary lender will have to work with the borrower and the credit reporting agency to have the items removed. The purpose of reviewing an applicant's credit report is to project the likelihood of repayment of their first lien, in a timely manner. Liens, judgments, collection accounts and slow pays on the credit report could indicate serious problems that should be explained by the borrower. When analyzing the borrower's credit record, it is the overall pattern of credit behavior that must be reviewed rather than isolated occurrences of unsatisfactory or slow payments.

It is also recognized that some prospective borrowers may not have an established a credit history. For these borrowers, a credit history may be developed with the use of utility payment records (at least 3 months' worth of most recent statements showing no late or missing payments), rental payments (rental rating from the landlord or rental agency, canceled checks or rent receipts covering the most recent 12 month period), automobile insurance payments (showing current and no late or missing payments) or other personal loans (canceled checks and a letter stating that the payments have been made on time).

VII. Determining Housing Expenses (Housing Cost)

A. Principal and Interest on a mortgage loan including any rehabilitation loans.

B. Mortgage Insurance: Depending on what type of first lien and the loan-to-value of the first lien, there may be mortgage insurance and the monthly obligation must be included in the total housing expense.

C. Property Insurance: The monthly obligation for property insurance is required on the property in the form of fire and hazard (depending on location, flood and/or earthquake insurance may also be required) and must be included in the total housing expense.

D. Property Taxes and Assessments: The monthly obligation for any property taxes and assessments such as Mello Roos must be considered. Preliminary Title Reports should be reviewed for indications of improvement districts, bonded indebtedness or special assessment districts.

E. Space Rent/Lease Rent: If a manufactured unit is in a mobile home park, or placed on leased land, the rent must be included in the total housing expense.

F. Homeowners Association Dues: If the home is a condominium or located in a planned unit development, the monthly assessment for the Homeowners' Association dues should be included in the total housing expense. Many newer

projects have multiple associations and every homeowner in the subdivision may be required to belong to a master association as well as the regular association.

VIII. Review of Primary Lender's Loan Terms and Conditions

The Recipient will first want to review the term, interest rate and conditions of the primary lender's loan to make sure CalHome requirements have been met.

A. The term of the first mortgage shall be for 30 years, except when United States Department of Agriculture Rural Housing Service (USDA-RHS) 502 mortgage loans are in first lien position.

B. The interest rate shall be market rate or below market rate.

C. First Mortgage loans shall not include provisions for negative amortizations or principal increases of deferred interest. Adjustable Rate Loans (ARM's) are not allowed. Graduated payment loans (GPM's) are not allowed. A permanent loan buydown is permitted as long as it does not cost more than 1% of the loan amount.

IX. CalHome Loan Amount and Term Requirements

A. The Recipient will be responsible for setting the CalHome Program loan limits. The CalHome loan must not exceed $60,000 (inclusive of Activity Delivery Fees). When considered with other available financing and assistance, it should only be in the amount necessary to ensure affordable monthly mortgage payments and enable the Borrower to purchase the home, since the CalHome loan is considered gap financing.

B. CalHome Program loans shall be secured by the property or leasehold interest as applicable.

C. The lien securing repayment of the CalHome Program loan shall be subject only to liens, encumbrances and other matters of record that have been reviewed and approved by the Recipient responsible for underwriting the CalHome Program loan.

D. Principal and interest payments shall be deferred for the term of the CalHome Program loan.

E. The term for first-time homebuyer mortgage assistance CalHome loans shall be 30 years except when a USDA-RHS 502 loan is in first position. The term of the CalHome loan must be the same length as the USDA-RHS 502 lien (30 to 38 years).

F. CalHome Program loans shall be repayable upon sale or transfer of the property, when the property ceases to be owner-occupied, or upon the CalHome Program loan maturity date. However, if it is determined by the Recipient that repayment of the CalHome Program loan at the maturity date causes a hardship to the homeowner; the Recipient has two other options they may provide to the homeowner. They are:

1. Amending the CalHome Note and Deed of Trust to defer repayment of the amount due at loan maturity, that is the original principal and the accrued interest, for up to an additional 30 years (at 0% interest), this may be offered one time; or

2. Converting the debt at loan maturity, that is the original principal balance and any accrued interest, to an amortized loan, repayable in 15 years at 0% interest.

G. By statute, the CalHome Program loans are not assumable.

H. CalHome Program loans shall be recorded in the first lien position following all "performing" loans.

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

1. transfer to a surviving joint tenant by devise, descent, or operation of 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:

(i) a transfer where the spouse becomes an owner of the property;
(ii) 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; or
(iii) a transfer into an inter-vivo, or living trust in which the homebuyer is and will remain the beneficiary and occupant of the property.

J. A borrower may pay a portion of or the entire deferred payment loan amount at any time without penalty, unless it is a shared equity loan.

K. Recipients may make CalHome Program loans bearing simple interest up to three percent (0-3%) per annum and may allow forgiveness of all or a portion of the accrued interest as part of its local program design. Loan principal shall not be forgiven, except as allowed by statute.

L. In lieu of making loans bearing a fixed interest rate of interest, Recipients may instead charge contingent deferred interest in the form of shared net appreciation as follows:

1. gross appreciation is calculated by subtracting the original sales price from the current sales price or the current appraised value if the loan accelerating event is other than the sale of the property;

2. net appreciation is calculated by subtracting the seller's applicable closing costs, seller's cash contribution in the original purchase transaction, the value

of the seller's sweat equity, if applicable, and the documented value of capital improvements from the gross appreciation amount;

3. the Recipient may only claim repayment of the principal and interest in the form of a portion of the net appreciation. That maximum portion of the net appreciation which may be claimed by the Recipient is equal to the percentage of the value of the residence financed by the CalHome Program loan. That is, if the loan equals twenty percent (20%) of the initial value of the residence, a maximum of twenty percent (20%) of the net appreciation may be charged by Recipient;

4. if there is no net appreciation, then the contingent deferred interest is zero;

5. the CalHome principal payment is not affected by the shared appreciation calculation, because the CalHome principal must always be repaid in full.

M. There are no resale restrictions allowed on properties where CalHome funds are the only subsidy. If there are resale restrictions, regulatory agreements, CCR's tied to other subsidy loans they must be recorded after the CalHome loan. In any loan transaction where the CalHome Program loan is the only subsidy, the borrower cannot be restricted from selling the home at its fair market value at any time.

N. There can only be one CalHome lien against a property at any one time.

X. Requirements for Concurrent Financing Subordinate to CalHome Loan

A. Homebuyer mortgage assistance loans when combined must have a loan-to-value ratio not exceeding 100% of the sales price (or appraised value if lower) plus a maximum of up to 5% of the sales price to cover actual non-recurring closing costs.

B. No financing, junior or senior to the CalHome loan may have a balloon payment due before the maturity date of the CalHome loan.

C. All subordinate financing shall defer all principal and interest payments for the term of the CalHome Program loan.

D. The CalHome lien should be the first subsidy/deferred payment loan recorded behind any performing/amortized loans. Exceptions may be made on a case-by-case basis by CalHome staff.

XI. Other CalHome Requirements

A. Maximum home values at time of purchase shall not exceed the sales price/value limit as established in the Recipient's Program guidelines and in accordance with 25 CCR Section 7716 (aa).

B. For a home purchase, the primary lender will order the appraisal. The Recipient should include a copy of the appraisal in their file. The appraisal shall be prepared by an independent, State-licensed appraiser, who has the knowledge and experience necessary to appraise residential property.

   The valuation must use the sales of comparable properties approach to determine value. The comparable properties approach is the approach an appraiser most commonly uses to determine the market value of single-family residential properties. This approach is based on the assumption that a homebuyer will not pay more for a property than it would cost to buy a comparable property in the same neighborhood or similar neighborhoods. The property that is being underwritten is compared to similar properties sold within the last six months in the surrounding neighborhood and a value is determined. The appraisal or valuation is evaluated to assure that the property is not over encumbered or over improved.

C. Cash transactions and oral agreements outside of escrow are prohibited. Any agreements on the side between buyer and seller, buyer and real estate broker or owner and contractor are prohibited. All agreements have to be included in the purchase agreement or escrow instructions.

D. Cash out of escrow to the borrower is limited to the amount deposited into escrow by the borrower and not needed for any lender-required minimum down payment. Excess cash, over that described above shall be paid to the Reuse Account and credited as a principal reduction to the homebuyer's loan. There must be a clear accounting of the source of credits. Seller credits in a reasonable amount which create cash-back to the buyer are acceptable. However, credits from lenders or agents which create cash-back to the buyer are not. When a lender or agent credit creates a cash-back situation, the cash-back amount should be used as a principal reduction on the CalHome loan and not released to the buyer.

E. CalHome funds can be used to pay non-recurring loan closing costs associated with the CalHome loan. These are the one-time charges related to the home purchase and can be part of the amount borrowed by the homebuyer. CalHome funds cannot be used to pay loan closing costs on other loans. The amount of non-recurring closing costs that may be borrowed cannot exceed 5% of the sales price. No loan fees are to be charged to the homebuyer for the CalHome loan.

F. CalHome funds cannot be used to payoff of all or any portion of a borrower's consumer debt, liens or judgments. This is not permitted even if required by the primary lender as a condition of loan approval, and even if paid through escrow.

G. Mortgage assistance for permanent financing of a dwelling unit must be ready for occupancy, with the exception of either:

1. a dwelling unit acquired by an acquisition/rehabilitation loan such as a HUD FHA 203(k) loan or the CalHome acquisition/rehabilitation loan; or

2. a self-help housing being financed by programs such as the U.S. Department of Agriculture, Rural Housing Services 502 program.

H. CalHome funds can be used to purchase tenant occupied homes as long as the purchase contract requires property to be vacated prior to the close of escrow. Tenant relocation is not an eligible use of CalHome funds.

First-Time Homebuyer Mortgage Assistance
Homebuyer Education Requirements

I. Introduction

Buying a home can be the one of the most confusing and complicated transaction anyone can make. Providing the future homebuyer with informative homebuyer education training can bring success to the Recipient, the CalHome 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.

II. CalHome Requirements

Recipients shall provide homebuyer education in all cases where a CalHome purchase is involved. The training is provided at no cost to the home buyer. CalHome will reimburse the Recipient $350 per loan for the cost of providing the education, regardless of the cost to the Recipient. This is considered an Activity Delivery fee. All homebuyers have to participate. Homebuyer education curriculum shall be pre-approved by the Department and all training is to be done in person. Online training is not acceptable except in rare circumstances such as a refresher course, and unless approved beforehand. Lenders and Real Estate agents cannot provide the training.

The education shall include at a minimum the following topics:

A. Preparing for homeownership. The curriculum could include such things as: an overview of the training, the pros and cons of homeownership, analyzing income and expenses, house size and type, location considerations, comparison home shopping, monthly housing costs and the realtor's role.

B. Financing and credit analysis. The curriculum could include such subjects as: loan options, budgeting, determining income and expenses, home inspection, credit report, negotiating a purchase, applying for a loan, appraisal process, fees, financing terms and the avoidance of foreclosure.

C. Loan closing and homeownership responsibilities. The curriculum could include such subjects as: title insurance, escrow function, taxes, insurance, closing costs, RESPA, final walk through inspection, promissory note/deed of trust and settlement statement.

D. Home maintenance and loan servicing. The curriculum could include such subjects as: tax incentives, household budgeting, credit control, interior and exterior home maintenance and repair, pride of ownership, being a good neighbor, lenders servicing, timely loan payments, periodic inspections, and pitfalls of adding

additional financial liens to the property after purchase, such as home equity loans or expensive refinancing.

A certificate of successful completion of the homeownership education program shall be issued to each prospective homebuyer and a copy submitted to the Department with the Borrower Summary. It is important that the information from the class is current in the mind of the Borrower. The Recipient will not be reimbursed any additional funds from the CalHome Program if this is necessary.

E. Located in the Forms is a Homebuyer Education Training Check Sheet that is to be used when submitting your Plan to the Department for review and approval.

First-Time Homebuyer Mortgage Assistance Loan Closing Procedures

I. Introduction

The Recipient shall be the beneficiary on the Program loan and be responsible for drawing the CalHome deferred payment loan documents; sending the documents and the escrow instructions to escrow; and closing the loan. The Recipient's CalHome Note and Deed of Trust shall be sent to the Department of Housing and Community Development (HCD) for review and approval prior to their use. *If the CalHome Note and Deed of Trust have not been approved by the Department and the documents have been used to close loans, these loans could be ineligible to be reimbursed with CalHome funds.*

II. Review of First Mortgage Lender Documents, Escrow Instructions and the Preliminary Title Report

Before the Recipient draws the CalHome closing documents and escrow instructions, the Recipient should contact the escrow company and the Primary lender and request a copy of the escrow instructions, a copy of the Preliminary Title Report, the terms of the primary loan, and the property appraisal. These items should be reviewed as follows:

A. Confirm that the borrower has obtained the maximum primary loan with a term and interest rate from a Primary lender consistent with affordable housing costs as defined in your Program guidelines.

B. Confirm that fees and charges for financing are consistent with usual and customary market fees and charges for such financing in your area.

C. The Preliminary Title Report should be reviewed for correct property address and legal description. It should be reviewed for unallowable exceptions, exceptions requiring an endorsement and proposed vesting of the borrower.

D. If possible, review the Primary lender's escrow instructions for their requirements with regard to what exceptions may show on the CLTA and ALTA policies or any endorsements they are requesting (for example, endorsements regarding CC&R's and easements). The Recipient's requirements regarding unallowable exceptions and endorsements should match the Primary lender's requirements in this regard.

E. Property Taxes and Insurance amounts should be reviewed for accuracy. The Primary lender shall be required to collect and manage impound accounts for payment of taxes, assessments and hazard and/or flood insurance for the term of the primary loan.

F. The homebuyers should be vested the same on the Recipient's loan documents as on the Primary lender's documents.

G. The property appraisal report should be reviewed to assure the home will not be over-encumbered (exceed 105% loan to value) by the addition of the CalHome loan.

III. Drawing the CalHome Documents, Escrow Instructions and Loan Funding

The Recipient has reviewed the Primary lender's escrow instructions and the Preliminary Title Report. The Recipient is now ready to draw the CalHome loan closing documents and the escrow instructions. Documents that the Recipient must prepare and send to escrow are the following:

A. Promissory Note evidencing the loan, payable to the Recipient in the principal amount of the loan and stating the terms and rate of interest of the loan consistent with the requirements of the CalHome Program. The Recipient is prohibited from assigning its beneficial interest under the note. The CalHome Note must be secured by a Deed of Trust.

B. The CalHome Deed of Trust shall name the Recipient as the beneficiary and shall be recorded in the required lien position. CalHome liens should be the first non-performing (subsidy) lien.

C. Escrow Instructions with clear instructions to the escrow company. In the Recipient's escrow instructions, the Recipient should request an original ALTA Policy with the Recipient listed as a lien holder and a copy of Evidence of Insurance for all hazard and/or flood insurance policies showing the Recipient as additional Loss Payee. In addition, instructions to Escrow should include the prohibition of cash back to the borrower (except as defined in 25 CCR, Section 7731 [c]) and the requirement that any cash back should be applied to the principal amount of the CalHome loan.

D. Request for Copy of Notice of Default or Sale to be recorded on behalf of the Recipient.

Samples of some of the documents listed above are located in the Sample Documents chapter of this handbook.

All the above closing documents are sent to escrow to be reviewed by the escrow officer and for the homebuyer's signature. Once the homebuyer has signed, all the above original documents, along with certified copies, except for the original Deed of Trust and Request for Copy of Notice of Default (these two items will be sent to the County Recorder's office for recording) are returned to the Recipient to be reviewed for completeness, accuracy and conformance to the escrow instructions. After the closing documents have been reviewed for compliance, and funds have been disbursed from the Recipient to escrow, escrow will be in a position to record the CalHome lien.

IV. After the CalHome Loan Closing

The Recipient should receive a certified Settlement Statement, the ALTA Policy and proof of insurance from the escrow company shortly after the loan documents record. Review these documents to make sure they are correct.

Check the Settlement Statement for unallowable fees the homebuyer might have been charged and make sure the borrower did not receive any unallowable cash back. If the borrower received unallowable cash back, it must be collected from the borrower and credited as a principal reduction to the CalHome loan. When cash back is credited to the CalHome loan principal in the settlement of the purchase transaction, the Recipient must identify the reduction on the back of the Promissory Note and the Authorized Signatory must sign and date. In addition, a letter should be sent to the Borrower identifying the reduced principal amount.

Review the ALTA Policy to make sure the CalHome loan is in the required program lien position and the correct amount, showing the Recipient as the Beneficiary. Check to make sure that all required endorsements have been provided.

Store the original Promissory Note and original Deed of Trust in a safe, secure place, with copies in the borrower's file.

Owner-Occupied Rehabilitation Loan Underwriting Requirements

I. Loan Application

Usually the first thing the homeowner will do is to complete a loan application. The Uniform Residential Loan Application (sometimes referred to as the 1003) is the industry standard. The application requires sufficient information concerning a borrower's financial position to enable the Recipient to make an informed judgment about the borrower's ability and willingness to repay the mortgage debt. It is usually the first piece of information obtained and used for preliminary qualifying.

The application should be compared to the credit report and the various verifications, as they are received, to support what the borrower has stated on the application. Particular attention should be paid to make sure the homeowner has made timely payments on their mortgage. If there are discrepancies between the documents, the Recipient must determine what is factual and have the borrower explain the discrepancies.

II. Owner-Occupied Homeowner And Property Eligibility

The most important step is to determine if the homeowner is eligible to participate in the program. In the chapter on Income Qualifying, it is explained how and what types of incomes to use in determining income-eligibility. All people living in the property who are at least 18 years old must have their income used in the qualifying calculation (except for non-related live-in caretakers paid by an outside source who are not considered household members).

In some cases there are owners on title not living in the property, such as a parent who co-owns the home with their son or daughter. If the children do not live on the property, do not deduct the property on their income taxes, and can document a different place of residence, their income may be excluded and they would not be counted as household members. However, if they are on title, they must sign the loan documents. If the Recipient needs additional security for the loan, a non-title holder Guarantor may sign the Promissory Note (but not the Deed of Trust). A non-title Guarantor, who signs only the Promissory Note and who does not reside in the home would not be counted as a household member and their income would not be used for determining eligibility. However, the Recipient should perform due diligence to show separate residence and income and credit for the purposes of risk mitigation.

The preliminary title report must be reviewed to document all owners on title. It must also be reviewed to document undisclosed liens that would affect the security of the CalHome loan.

The property must also be eligible for rehabilitation loans. The after-rehab value of a home assisted with a CalHome Program loan cannot exceed 100% of the current median sales price of a single family home in the county where it is located. The total loan to value including all loans on the property and the new CalHome loan may not exceed 105% of the after-rehab value.

III. Credit History

It is up to the Recipient whether or not to require a credit report. A credit report indicates the borrower's creditworthiness with previous mortgages, shows undisclosed debts, revolving accounts, installment accounts and any judgments, garnishments, liens and/or bankruptcies that are a matter of public record. A homeowner who has made payments on previous or current obligations in a timely manner represents a reduced risk to a lender.

The credit report will show information on the current status of accounts. The status is usually coded such as "R-1", which stands for revolving accounts; "I-1", which stands for installment accounts. By reviewing the report, the Recipient may also discover information that the borrower "forgot" to include on the application. There may also be items on the report that do not belong to the borrower and the Recipient will have to work with the borrower and the credit reporting agency to have items removed. The purpose of reviewing an applicant's credit report is to project the likelihood of repayment of the borrower's debts in a timely manner. Liens, judgments, collection accounts and slow pays on the credit report could indicate serious problems that should be explained by the borrower. When analyzing the borrower's credit record, it is the overall pattern of credit behavior that must be reviewed rather than isolated occurrences of unsatisfactory or slow payments.

IV. Eligible Costs for the Rehabilitation

A. Cost of rehabilitation of the property in accordance with the following definition: "Rehabilitation" means, in addition to the definition in Section 50096 of the Health and Safety Code, repairs and improvements to a manufactured home necessary to correct any condition causing the home to be substandard pursuant to Section 1704 of Title 25, California Code of Regulations. Rehabilitation includes reconstruction, bedroom and bathroom additions to alleviate overcrowding (as defined in the latest Census) as well as repairs and improvements which are necessary to meet any locally-adopted standards used in local rehabilitation programs. All rehabilitation costs must be for the alleviation of health or safety issues, the correction of code violations, or compliance with local ordinances.

B. Cost of building permits and other related government fees.

C. Cost of architectural, engineering, and other consultant services which are directly related to the rehabilitation of the property and related to eligible work done using CalHome funds.

D. Non-recurring loan closing costs such as escrow or title charges. No loan fees are to be charged to the homeowner for the CalHome loan.

E. Replacement cost of a manufactured home not on a permanent foundation up to the maximum loan amount published in the current NOFA in the case where it has been determined by the Recipient it is infeasible to rehabilitate the manufactured home. The replacement home must be of like quality, type, construction, square footage, etc. A structure on a non-permanent foundation (personal property) cannot be replaced by a structure on a permanent foundation (real property). However, a stick-built structure on a permanent foundation may be replaced by a manufactured home when it is placed on a permanent foundation. Since both are considered real property, the test of "like for like" has been met.

F. A CalHome activity delivery fee in an amount not to exceed the maximum amount published in the current NOFA per assisted unit will be reimbursed in the form of a grant from the Department to the Recipient. If not identified in the current NOFA, the CalHome Program policy is that all ADF fees must be actual, normal for the area, and reasonable. ADF costs cannot be based on salary or administrative costs since the CalHome Program is funded by State bonds.

G. Relocation costs during the project if required for health and safety, and if made part of the loan.

V. Prohibited Uses of Funds

A. Refinancing of existing loans or payoff of personal obligations with CalHome funds.

B. Costs associated with the rehabilitation or repair of property owned by a mobile home park owner.

VI. CalHome Program Loan Amount and Term Requirements

A. The maximum CalHome assistance per household is $60,000. This total assistance amount includes both the allowance for ADF fees as well as the amount on the Promissory Note. The actual loan amount is the total assistance, less the ADF fees. Most loans will be less than $60,000, after you subtract the allowance for eligible Activity Delivery Fees that CalHome reimburses to the Recipient. The CalHome Program loan amount cannot exceed the amount required to fund eligible rehabilitation cost in accordance with program requirements.

B. An owner-occupied rehabilitation loan for a stick-built home shall be secured by the real property and improvements. A manufactured home that is not on a permanent foundation will be secured by an HCD 480 Statement of Lien.

C. The CalHome Program loans shall have the following terms and conditions:

1. Principal and interest payments shall be deferred for the term of the loan. As part of its program design, the Recipient may make an owner-occupied rehabilitation loan bearing simple interest from 0% to 3% per annum (Recipient option), but the rate must be consistent throughout the program. The Recipient may allow forgiveness of all or a portion of the interest as part of its program design. Loan principal shall not be forgiven except as allowed by statute.

2. Financial assistance to purchase, rehabilitate, or replace manufactured housing not permanently affixed to a foundation may be provided in the form of a secured forgivable loan to an individual household. The loan shall be due and payable in 20 years, with 10 percent of the original principle to be forgiven annually for each additional year beyond the 10th year that the home is owned and continuously occupied by the borrower. This is a conditional grant. **If the Recipient chooses to use this loan structure, it must be used consistently within the Recipient's program for all manufactured homes which are eligible.** If the Recipient chooses not to use this loan structure, loan terms on manufactured homes on a non-permanent foundation may be for a minimum of 10 years to a maximum of 30 years, but this must be consistent within the Recipient's program.

3. CalHome Program loans shall be repayable upon sale or transfer of the property, when the property ceases to be owner-occupied, upon the loan maturity date or upon repayment. However, if it is determined by the Recipient that repayment of the CalHome Program loan at the maturity date causes a hardship to the homeowner; the Recipient has two other options. They are:

   a. Amending the note and deed of trust to defer repayment of the amount due at loan maturity, that is the original principal and the accrued interest, for up to an additional 30 years (at 0% interest), this may be offered one time; or

   b. Converting the debt at loan maturity, that is the original principal balance and any accrued interest, to an amortized loan, repayable in 15 years at 0% interest.

4. By statute, CalHome Program loans are not assumable.

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

   a. transfer to a surviving joint tenant by devise, descent, or operation of law on the death of a joint tenant;

   b. a transfer, in which the transferee is a person who occupies or will occupy the property, which is:

      (i). a transfer where the spouse becomes an owner of the property;

(ii). 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; or

(iii) a transfer into an inter vivo trust in which the borrower is and remains the beneficiary and occupant of the property.

6. The term for owner-occupied rehabilitation CalHome Program loans shall be for a maximum of 30 years. The term must be consistent for all loans. The only exception is when making a 20-year forgivable loan on a manufactured home which is in a mobile home park and on a non-permanent foundation.

7. A borrower may pay a portion of or the entire deferred payment loan amount at any time without penalty.

VII. Other CalHome Requirements

A. There must be a loan agreement between the homeowner and the Recipient governing the rehabilitation and the CalHome Program loan terms. The terms of any other financing provided by the Recipient should also be included. The Promissory Note, alone, is not sufficient to meet this requirement. The Loan Agreement should be a separate document and is not recorded.

B. The loan-to-value ratio for an owner-occupied rehabilitation loan, when combined with all other indebtedness secured by the property, shall not exceed 105% of the estimated after-rehabilitation-value. The after-rehabilitation value may not exceed 100% of the median sales price in the county in which the property is located.

C. No financing, junior or senior to the CalHome loan, may have a balloon payment due before the maturity date of the CalHome loan.

D. Any cash out of escrow to the homeowner is prohibited. This is to ensure that CalHome Program funds are spent only in the amount required to pay for actual rehabilitation and non-recurring closing costs.

E. Prior to commencement of rehabilitation work, a loan-to-value ratio shall be determined for all existing and proposed encumbrances including the proposed CalHome loan. The Department has determined that a California licensed fee appraiser is most qualified to prepare the appraisal. Local programs with experience operating a housing rehabilitation loan program often have staff experienced with determining value of local residential properties. Where the Recipient's staff can determine value using information from comparable sales, an appraisal from a fee appraiser is not necessary. Some Recipients use a modified approach to this requirement which has the same result of protecting the homeowner from over-encumbering their property. Their approach is to require an appraisal only when the loan-to-value percentage of existing encumbrances exceeds 80% of value (based on comparable sales). Either method is acceptable. The Department has determined that of the available methods, the comparable sales approach to determining value

is the most frequently used and most accurate and reliable method for appraising residential properties. The appraisal must include the pre-rehabilitation value as well as the after rehabilitation value.

F. The CalHome Program does not require an appraisal in the case of rehabilitation work or replacement of a manufactured home not on a permanent foundation. The Recipient will be responsible for performing an inspection on the existing manufactured home to ascertain if it should be repaired or replaced. All permits must be obtained from HCD's Title and Registration Division and all liens must be paid prior to commencing work.

G. Recipients must obtain title insurance in the amount of the CalHome Program loan at close of escrow, showing the Recipient as the beneficiary.

H. Lead paint testing when lead hazard abatement is performed on homes built before 1978, is an allowable cost. If work is not done, the testing costs are not eligible because it is not a CalHome requirement. Likewise, a termite report may be charged only when work reported is performed for Section I or Section II items. Such funds are made part of the loan and are not considered a grant.

I. Fire insurance (and flood insurance where applicable) requirements are as follows:

   1. Recipients must require borrowers to maintain insurance on the property in the amount at least equal to the replacement value of the improvements; or the value of the loans; and

   2. Recipients must be named as additional loss payee on the policy.

VIII. Rehabilitation Construction Requirements

The following rehabilitation construction requirements shall be addressed in your guidelines.

A. The Recipient shall determine the rehabilitation work to be performed on the property by conducting an initial property inspection.

B. The Recipient shall ensure that the rehabilitation work funded pursuant to the Program guidelines shall be performed in a competent, professional manner at the lowest reasonable cost consistent with market conditions.

C. The Recipient shall ensure that all general contractors and subcontractors selected by the borrower are licensed by the Contractors State License Board and that they maintain Workers' Compensation and Employer Liability insurance to the extent required by State Law. The contractor selected shall complete the work in accordance with a construction contract executed between the contractor and the borrower and approved by the Recipient. The homeowner may be allowed to do his

own work if he has a valid California Contractor's license and is performing activities allowed under his license.

D. The Recipient shall monitor construction for compliance with the construction contract and program requirements, and establish practices to ensure that payments to the contractor are properly disbursed by, or on behalf of, the homeowner.

IX. Eligible and Ineligible Rehabilitation Construction Costs

"Rehabilitation" means, in addition to the definition in Section 50096 of the Health and Safety Code, repairs and improvements to a manufactured home necessary to correct any condition causing the home to be substandard pursuant to Section 1704 of Title 25, California Code of Regulations.

Rehabilitation includes reconstruction/replacement. "Reconstruction" means the demolition and reconstruction of an owner-occupied residential structure of similar nature ("like for like"). An increase in square footage or addition of rooms is prohibited unless done to alleviate overcrowding. Recipients must document that the reconstruction costs are less than newly constructed housing and that the estimated cost of the reconstructed housing (excluding demolition, site preparation and temporary relocation) is less than the fair market value of the reconstructed housing and land combined. In instances where the initial structure is demolished and rebuilt or replaced, the costs to do so must not exceed 110 per cent (110%) of the estimated cost of rehabilitation.

Rehabilitation also includes room additions to alleviate overcrowding (as defined in the latest Census). Room additions are restricted to bedrooms and bathrooms and cannot include home offices, family rooms or dens. Rehabilitation also means repairs and improvements where necessary to meet any locally-adopted standards used in local rehabilitation programs. Rehabilitation does not include replacement of personal property or furnishings.

Rehabilitation will address the following issues in the order listed. Eligible costs are included for each item.

A. Health and Safety Issues, Correction of Code Violations, or Compliance with a Local Ordinance (the four eligible uses for CalHome funds)

Eligible costs include repair or replacement of electrical, heating and plumbing systems. It also includes roof replacement, and repairs to remedy mold, dry rot, water damage or termite damage. Also included are lead-based paint hazard reduction and improvements for disability access.

Eligible costs include additional work required to rehabilitate and modernize a home, and bring it into compliance with current building codes and regulations. Items in a detached garage are generally not eligible except to the extent that the residence is affected by the current condition. For example, out-of-code

electrical wiring between the house and the garage which could create a fire hazard to the residence; or mold or termites in the garage which could easily move to the residence.

Painting, weatherization and energy efficient improvements are included when required by code. Energy efficient items and green building items cannot be stand-alone but must be connected in some fashion to one of the four eligible uses of CalHome funds. For instance, dual pane windows may replace windows which must be repaired because they are not operational. Insulation may be added when a roof or ceiling requires repair. However, a tankless water heater is considered an enhancement and is not usually eligible to replace a tank-style water heater. When in doubt, consult your CalHome Representative.

B. Demolition And Clean-up

Eligible costs include the tear down and disposal of dilapidated structures. Eligible costs also include clearance of weeds, junk, debris, stagnant water, and garbage which directly affect the residence structure and constitute a health and safety hazard. Removal of debris and weeds is generally considered normal maintenance and is an ineligible use of CalHome funds. However, because situations are variable, consult your CalHome Representative.

C. Closing Costs and Other Charges

Eligible costs include non-recurring closing costs for the loan paid to third party providers for such items as title searches, credit reports, notary fees, recording fees, escrow fees, or appraisals. The homeowner does not pay any costs for the CalHome loan such as refundable application fees, loan processing or document fees. These costs are incurred by the Recipient and reimbursed by CalHome to the Recipient as Activity Delivery Fees. Other costs such as termite inspections (when termite work is done), haul away, disposal bins, architect fees, permit fees, should be included in the loan.

D. Additions

Eligible costs include construction of additional bedrooms and bathrooms if needed to alleviate overcrowding (as defined in the latest Census). The program will not fund additions to a home for a den, home office or family room. No detached additions or buildings are permitted unless required by a local ordinance (such as covered parking).

E. General Property Improvements

General property improvements are permitted if they relate to health and safety, or code or local ordinance compliance activities. All improvements must be physically attached to the property and permanent in nature. They must remain with the home if the home is sold. A driveway, landscaping or fencing may be

considered part of rehabilitation if it is determined to be a health and safety issue. Luxury items are not permitted to be paid with CalHome funds.

F. Appliances

Built in appliances such as garbage disposals, dishwashers, stoves and ovens may be replaced if they are broken or non-repairable. Free standing appliances such as refrigerators, washers and dryers are not included. New built-in appliances are ineligible if they do not replace a similar existing appliance.

G. Relocation and Storage

Relocation costs and storage costs are considered secondary costs and allowed only when absolutely necessary for health and safety. These costs are part of the loan which must be repaid and are not a grant. Homeowners should be encouraged to stay with friends or relatives so that most of the funds are used for property improvements.

H. Rehabilitation Standards

All repair work related to health and safety conditions will meet Uniform Building Code standards. The priority will be the elimination of health and safety hazards and code compliance. The replacement materials will be of a similar grade and quality compared to the original construction. Substantial upgrades such as premium carpet, travertine tile, marble tile, granite or marble countertops, or are normally not permitted to be paid with CalHome funds.

I. Mobile Homes

Rehabilitation or Replacement of a manufactured home not on a permanent foundation with a similar structure is permitted. Rehabilitation of a manufactured home may include the replacement of the unit with a new or used manufactured home. A mobile home is eligible for replacement if the cost to rehabilitate it is not feasible. The footprint of the new structure may be larger if the cost of the new manufactured home does not exceed 110% of the cost that would have been incurred if the existing manufactured home had been rehabilitated. This is usually feasible when a “gently-used” coach is purchased. All costs associated with the purchase and transportation can be added to the loan.

J. Ineligible Costs and Improvements

Property improvements not related to health and safety, correction of code violations or compliance with local ordinances are not permitted. A partial list of ineligible upgrades are: bar-b-ques, outdoor kitchens, patios, decks, patio covers, swimming pools, hot tubs, animal shelters, sports courts, storage sheds, workshops, fountains, security systems, TV antennas, plantation shutters, wall

paper, tankless water heaters, upgraded carpet, built in entertainment centers, granite counter tops; travertine or marble tile, and garage floor coatings.

X. Activity Delivery Fees

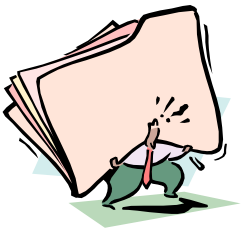
CalHome will reimburse the Recipient (The City or Provider) for some of the costs they have incurred to deliver the rehabilitation loan. These costs are considered Activity Delivery Fees. Activity Delivery Fees must be in amounts that are customary and usual for similar services performed by private firms. They must be reasonable. CalHome reserves the right to require supporting documentation to determine the appropriateness of any claimed costs, whether by line item or by totals.

Such costs could be for home inspections in the development of the work write-up, work write-ups, loan processing, underwriting, loan documents, construction payouts, contract management and bid reviews. These charges are not paid by the homeowner since the Recipient is reimbursed by CalHome. Activity Delivery Fees should not be included in the amount of the homeowner's loan and do not need to be paid back. These fees are reimbursed to the Recipient as a grant.

For Reimbursement the Recipient must submit to CalHome an Activity Delivery Fee Reimbursement form along with the Borrower Summary and closing paperwork. Typically such fees may range from $2,000 to $3,000 per loan. Presently, the total amount CalHome allows per rehabilitation project is $60,000 which includes the Activity Delivery Fees and the Promissory Note amount. So if the Recipient claims $2,000 to deliver the loan, then the maximum that can be borrowed by the homeowner is $58,000.

The homeowner only pays for charges and costs that are performed by third party providers, not the Recipient. Those one-time charges are considered non-recurring closing costs and may be paid either at the time of closing or added to the loan that the homeowner pays back. Such closing costs could be for appraisal, title searches, credit reports or escrow charges. Continuing with the above example, if the homeowner has $1,000 in closing costs added to the loan, he only has $57,000 to spend on home repairs, but his loan is for $58,000.

Owner-Occupied Rehabilitation Loan Closing Procedures



I. Introduction

The Recipient shall be responsible for drawing the deferred payment loan documents, sending the documents and escrow instructions to escrow (unless the Recipient handles the escrow themselves) and closing the loan.

II. Review of the Preliminary Title Report

The Preliminary Title Report is reviewed for correct property address and legal description, as well as confirmation of the title holders, all of whom must sign the loan documents. While reviewing the exceptions, the Recipient may find that certain exceptions must be deleted from the ALTA Policy or may require special endorsements, as in the case of CC&R's or easements. The Recipient may also find liens and judgments against the homeowner that did not show up anywhere else. The report will also show if the property taxes are delinquent.

III. Drawing the CalHome Documents, Escrow Instructions and Loan Funding

Documents that the Recipient must prepare and send to escrow are the following:

A. A CalHome Promissory Note evidencing the loan, payable to the Recipient in the principal amount of the loan and stating the terms and rate of interest of the loan consistent with the requirements of the program. The Recipient is prohibited from assigning its beneficial interest under the note. The note must be secured by a Deed of Trust.

B. The CalHome Deed of Trust shall name the Recipient as the beneficiary and shall be recorded in a junior lien position to existing liens.

C. Escrow instructions with clear instruction to the escrow company. In the Recipient's escrow instructions, the Recipient will request an original ALTA Policy and a copy of the hazard insurance showing the Recipient as additional loss payee. In addition, the Recipient must identify that any cash back to the borrower is prohibited.

D. Request for Copy of Request for Notice of Default or Sale to be recorded on behalf of the Recipient.

E. Disclosure forms as required by State and Federal law.

F. Notice of Completion to be recorded. This may be a trailer document (a document provided to Escrow at a time subsequent to the recording of the Deed of Trust and Request for Notice of Default or Sale), but it must be recorded prior to requesting credit for the loan from HCD.

G. A Notice of a Three Day Right of Rescission.

Samples of some of the documents listed above are located in the Sample Documents chapter of this handbook.

All the above closing documents are sent to escrow (unless the Recipient does their own escrows) to be reviewed by the escrow officer and for the borrower's signature. Once the borrower has signed, all the above original documents, along with certified copies, except for the original Deed of Trust and Request for Copy of Notice of Default or Sale (these items will be sent to the County Recorder's office for recording), are returned to the Recipient to be reviewed for completeness, accuracy and conformance to the escrow instructions. After the closing documents have been reviewed for compliance, and funds have been disbursed from the Recipient to escrow, escrow will be in a position to record the CalHome lien. When the work has been completed, the Notice of Completion will be sent to Escrow for recordation. Since this is a document which protects the homeowner, the return address after recording should be that of the property.

IV. <u>After the CalHome Loan Closing</u>

The Recipient should receive a certified Settlement Statement, the ALTA Policy and proof of insurance from the escrow company a few days after the loan records. Review these documents to make sure they are correct. Check the Settlement Statement for unallowable fees the homeowner might have been charged and to make sure the homeowner did not receive any unallowable cash back. If the borrower received unallowable cash back, it must be collected from the borrower and credited as a principal reduction to the CalHome loan. Clear instructions to Escrow regarding the prohibition of cash back should prevent the need to collect from the borrower. Review the ALTA Policy to make sure the CalHome loan shows in the appropriate lien position and amount, and that all required endorsements have been provided. Store the Promissory Note in a secure, safe place, with a copy in the borrower file.

When the rehabilitation is complete verify that the total CalHome loan funds have been spent or returned to the CalHome reuse account. There may not be any cash back to homeowners, even if their project came in under budget. If not all of the funds were spent, the principal of the homeowner's loan is reduced by the amount of the unspent funds. Unspent funds are deposited in the Reuse Account. Send a letter to the borrower indicating that the loan principal has been reduced by the amount of the unspent funds. The original Promissory Note must be annotated on the back to show the principal reduction and should be signed by the Recipient's Authorized Signatory.

DISBURSEMENT PROCEDURES

I. Disbursement of Grant and Loan Funds

A. CalHome Program funds may be disbursed on a reimbursement basis or an advance basis. Recipients request CalHome Program funds for reimbursement after rehabilitation work has been completed or after purchase loans have closed.

B. Recipient may request advance funding for either mortgage assistance or owner-occupied rehabilitation loans. Advance funding may be requested up to 25% of the total award. With the 25% advancement, proof of closed loans and completed rehabilitation must be provided to cover at least two-thirds of the previously advanced funds before additional funds will be advanced.

C. Borrower Summaries must be submitted within 90 days of closing for mortgage assistance loans and 90 days of completion of work for owner occupied rehabilitation loans.

D. Development project loans disbursements are usually handled on a reimbursement basis except when the funds are used for site acquisition. Subject to Department of Housing and Community Development's (HCD's) approval, arrangements will be made for advance funding for the predevelopment and on-site work.

E. All Quarterly, Active Annual, and Annual Reuse reports must be current at time of advance or reimbursement draw request approval.

F. The source of funds for CalHome comes from the sale of general obligation bonds and general obligation bond law generally requires funds to be expended for the actual hard costs. Located in the Forms section is the Mortgage Assistance Program Activity Delivery Fee Reimbursement Form and the Owner-Occupied Rehabilitation Activity Delivery Fee Reimbursement Form which are for reimbursement of *actual costs* incurred with the making of the loan. These forms have been designed by the CalHome Program and may not be changed by the Recipient.

G. Funds may be sent to escrow or to the Recipient themselves. If the funds are to be sent to escrow the Department requires a letter authorizing the Department to submit the funds to the escrow company. (see Section on sample documentation) For practical purposes most Recipients find it simpler to fund escrow themselves from advanced funds, or to use their own funds then seek reimbursement from CalHome.

H. Requests for reimbursement or advance of funds under the CalHome Standard Agreement shall be made on a Draw Request Form provided by the Department. The Draw Request must be an original and signed in blue ink (not black ink or

pencil) by the authorized signer or designee, per the Resolution. A Draw Request for reimbursement must be submitted with a Borrower Summary form for each loan, along with all documents which are listed on the form. The Borrower Summary Form may be signed by a staff person and e-mailed or faxed documentation is acceptable. The Borrower Summaries and supporting documentation must be provided to show usage of advanced funds. Two-thirds of the amount previously released must be documented before any additional funds are advanced.

I. A Draw Request for Reimbursement should be for more than a single loan. You do not need to send a separate Draw Request for each loan. Because CalHome staff must generate paperwork for each Draw Request before sending it forward to the Accounting Division, you are more likely to receive funds quickly by sending a single request for several loans. However, if there is a great spacing of time between your submissions for reimbursement, do not wait. In this instance, a single request for a single loan would be appropriate.

J. Once the request for reimbursement or advance funding from the Recipient has been reviewed and approved by the Department, funds shall be disbursed to an authorized payee approved by the Department.

II. Required Documentation:

Documentation, specific to the type of activity being undertaken, must be submitted to the Department when requesting disbursement of funds. The Department reserves the right to request copies of other documentation prior to or after processing any draw request.

III. Mortgage Assistance Documentation:

A. Prior to the first draw, the Recipient must submit the Recipient's program guidelines to the Department for approval.

1. The written Program Guidelines for Recipient's mortgage assistance program;

2. Written procedures for long-term loan servicing provided by either the Recipient or a third party (along with executed agreement between Recipient and third party);

3. Written procedures for the Recipient's Reuse Account plan;

4. Written procedures for homebuyer education training, provided by with the Recipient or a third party (along with executed agreement between Recipient and third party);

5. Copy of actual CalHome Note and Deed of Trust which will be used;

6. A twenty year CalHome Monitoring Agreement (will be drawn up by HCD once we are in receipt of the Recipient's loan servicing and reuse account plans), to be executed by the Recipient and the CalHome Manager.

B. With each draw request, submit:

1. Original Completed Mortgage Assistance Draw Request signed by Authorized Signatory or designee in blue ink.

   a. Contributed Labor Certifications, if applicable.

2. Completed Mortgage Assistance Borrower Summary signed by the program administrator, Submit one for <u>each individual CalHome loan,</u> with the following items attached to each in the following order:
   a. Copy of the executed CalHome Promissory Note;

   b. Closing statement or HUD 1;

   c. Copy of the buyer's Homebuyer Education Course Completion Certificate; and
   d. Completed Activity Delivery Fee Reimbursement form, if applicable.

IV. <u>Owner-Occupied Rehabilitation Documentation:</u>

A. Prior to the first draw, the Recipient must submit the Recipient's program guidelines to the Department for approval.

1. Written program guidelines for Recipient's owner-occupied rehabilitation;

2. Written procedures for long-term loan servicing, provided by either the Recipient or a third party (along with executed agreement between Recipient and third party);

3. Written procedures for the Recipient's Reuse Account plan;

4. Copy of sample CalHome Note and Deed of Trust;

5. A twenty year CalHome Monitoring Agreement (will be drawn up by HCD once we are in receipt of the Recipient's loan servicing and reuse account plans), to be executed by the Recipient and the CalHome Manager.

B. With each individual draw, submit:

1. Completed Owner-Occupied Rehabilitation Draw Request.

2. Completed Owner-Occupied Rehabilitation Borrower Summary for <u>each individual CalHome loan,</u> with the following items attached to each in the following order:

    a. Copy of the executed CalHome Promissory Note;

    b. Final line-item budget with change orders;

    c. Closing statement or HUD 1;

    d. Completed Activity Delivery Fee Reimbursement form; and

    e. Recorded Notice of Completion.

V. <u>Homeownership Project Development Loans:</u>

A. Prior to the first draw, the Recipient must:

1. Comply with all CalHome Loan closing requirements as itemized in the Homeownership Project Development Loan Check sheet (see Forms chapter), and be prepared to close the CalHome Loan: and

2. Thirty (30) days prior to the first draw, the Recipient must submit its written Program Guidelines for a mortgage assistance program to HCD for review and approval. The Recipient's Program Guidelines must include the following:

    a. Written underwriting guidelines;

    b. Written procedures for long-term loan servicing provided by either the Recipient or a third party;

    c. Written procedures for homebuyer education provided by either the Recipient or a third party;

    d. Written procedures for the Recipient's Reuse Account plan;

    e. Copies of the Recipient's CalHome Note and Deed of Trust; and

    f. A twenty year CalHome Monitoring Agreement (which will be drawn up by HCD once we are in receipt of the Recipient's Loan Servicing and Reuse Account plans), that has been executed by the Recipient and the CalHome Manager.

3. Have executed a Promissory Note to the State of California and have recorded a Deed of Trust for the total loan as a lien against the property.

B. With each draw, submit:

1. Completed Development Loan Draw Request;

2. Completed Development Loan Activity Summary (or computer generated summary containing the same information);

3. If CalHome funds are used for site improvement costs, evidence that costs have been incurred or work completed, e.g. inspector's monthly progress inspection signed by Recipient's architect and Recipient. If approved by the Department for Advance funding, submit the completed Advance funding request.

4. Receipts for allowable soft costs.

VI. Development Project Loan Conversion to Mortgage Assistance:

A. Upon unit completion, to provide mortgage assistance to a homebuyer by way of a CalHome mortgage assistance loan, submit the following:

1. Development Loan Conversion Draw Request

   a. Contributed Labor Certification, if applicable

2. Development Loan Conversion Borrower Summary (or computer generated summary containing the same information), one for each individual CalHome loan, with the following items attached to each in the following order:

   a. Copy of the CalHome Note executed by the Borrower;

   b. Copy of the buyer's Homebuyer Education Course Completion Certificate;

   c. Copy of the recorded Request for Notice of Default or Sale;

   d. Copy of the Certificate of Occupancy for each completed unit; and

   e. Copy of the recorded Notice of Completion

   f. Payoff demand and Request for Partial Reconveyance for each unit.

VII. Other Draw Request Procedures

A. Recipients must use CalHome's Draw Request form which is found in the Forms chapter. This form is applicable to all CalHome activities and is used for either a request for advanced funding or a request for reimbursement.

B. The person signing the forms must be **specifically authorized** (by resolution or by a letter of designation from the Authorized Signatory) to sign those types of documents on behalf of the Recipient. Proof of such authorization must be submitted to the

Department prior to or concurrently with the Recipient's initial Draw Request. The Draw Request should be signed in blue ink, not black ink or pencil, to identify it as an original.

C. State warrants will be made payable to the Recipient when requesting reimbursement. However, the Recipient may request that a warrant or all warrants be made payable to a "designated payee" under the following exceptions only:

   1. Recipients approved by the Department for advance funding to mortgage assistance escrow accounts; or

   2. Development Project Loan disbursements.

A letter, on the Recipient's letterhead, which contains the original signature of the Recipient's authorized signatory, must evidence such authorization for either exception. A sample letter is included in the Sample Documents Chapter.

VIII. Important Notes

A. More than one designated payee authorization may be on file with the Department at the same time for the same Standard Agreement, so be sure to specify to which designated payee each warrant should be made payable.

B. When the above forms and documents have been received and approved first by the CalHome Program, the Draw Requests will be forwarded to the Department's Accounting Branch, which will begin processing a request for the issuance of a State warrant. The entire process usually takes five to six weeks.

C. If a Recipient has failed to spend 95% of any active award by the end of the contract, they will receive a penalty on their next CalHome application.

IX. Close Out Activities

After the Standard Agreement has expired any funds which were not drawn will be disencumbered and no longer available to the Recipient.

The assigned HCD Representative (HCD Rep) will perform a review of the documents that were submitted. The HCD Rep will analyze these items for permissible costs and satisfactory records and will then provide the State's reconciliation figures to the Recipient's Staff.

When the grant has terminated, any funds drawn but not credited by HCD for eligible activities must be returned to the State, along with any earned interest on that amount. This should only be done after the Recipient and the State have reconciled with each other.

Project Development loans will be assessed six percent (6%) interest from the date of

receipt, if any funds drawn from the loan during the construction phase were not used for eligible costs and were not converted into Mortgage Assistance Loans.

After the Reconciliation

If the financial documentation sent by the Recipient matches with the CalHome records, and all funds have been returned or disencumbered, a close out letter will be issued. This letter will be sent to the Authorized Signatory, with electronic copies to the Recipient's contact person. Attached to the letter will be the latest version of the Reuse Account Annual Report form.

Project Development Loans will also receive an executed Reconveyance which the Recipient may record to release the State's lien.

Recipient Responsibilities

After the Grant has been closed out, Recipients should submit the last Quarterly Report and Active Grant Annual Report which cover the period through the end of the contract. No further Quarterly or Active Grant Annual Reports will be required.

At the end of each fiscal year thereafter, the Reuse Account Annual Report form should be utilized, not the Annual Report form. Please note that the Reuse Account Annual Report form allows reporting for multiple grants if you had more than one. If your internal records indicate which grant was the source of funds received into the account, tracking will be facilitated.

- **NOTE:** After the State and the Recipient have reconciled their records, Owner-Occupied Rehabilitation activities require further action if funds have been advanced and if the amount of the Promissory Note exceeds the actual amount of the eligible work done to complete the project, the difference between these amounts should be moved into the Reuse Account, and the Promissory Note should be discounted on the back. This reduction should be signed by the Recipient's Authorized Signatory. The Borrower should be sent a letter to inform them of their final financial obligation.
- When advanced funds have been obligated, but not used prior to the termination date of the Standard Agreement on either the intended project or on a substituted project, they must be returned to the State along with earned interest from the date they were advanced.

Loan Servicing

I. Introduction:

Recipients shall develop a loan servicing plan to be included in their program guidelines, which shows that they have the ability to perform loan servicing duties. The Recipient may also contract with a third party for loan servicing. A copy of the written agreement with the third party must be submitted to the Department. Up to 5% of funds deposited in the Reuse Account may be used for the costs of loan servicing.

There is a Loan Servicing Plan Check Sheet, located in the forms section of this manual that is to be used when submitting your Loan Servicing Plan to the Department for review and approval. Prior to the first draw, the Department must review and approve the Recipient's loan servicing plan.

The loan servicing plan must address the following requirements:

A. The process for monitoring continued owner-occupancy. When an owner is not residing in the home due to illness and/or hospitalization, the CalHome Program position is that this may be considered continued owner-occupancy only for the initial six months of absence;

B. The process for monitoring the annual renewal of hazard insurance and flood insurance if required;

C. The process for monitoring the timely payment of property taxes and assessments, whether or not they are impounded;

D. Identify the process to account for the repayment of individual CalHome loans either in part or in whole;

E. Identify the process to properly calculate payoffs;

F. Describe the procedure to be used to process the demands;

G. Describe the process to reconvey deeds of trust;

H. Address the process for the collection of CalHome Program notes in default or foreclosure. Recipients should include their policy on short sales and the methods that will be used to recapture the principal since it loan principal cannot be forgiven except as allowed by statute. Senate Bill 458 may contain information pertinent to the development of this policy;

I. Identify the requirement that the CalHome is not assumable;

J. Describe the procedure to be used for handling subordination requests and define the policy on refinances.

II. Refinances and Subordinations after the CalHome Loan is Recorded:

A. The new senior lien must be for rate or term only, and may include financed closing costs. Cash out from a new lien in a position senior to the CalHome lien is not permitted. If the Borrower wishes cash out from the property, they must record a lien junior to the CalHome lien. It is CalHome's belief that the Borrower should not be put in a position where additional obligations may create a burden on them beyond that which was analyzed and approved when the CalHome lien was placed and therefore, the CalHome lien should not be subordinated unless for a rate or term refinance;

B. The term of the new senior lien must be at least for the period of time remaining on the CalHome loan. It must mature concurrently or after the CalHome lien. Recipients are required to review the terms of the new lien to ensure that CalHome requirements have been met.

C. The new loan must be amortized for the entire period of the loan. Negative amortization, balloon payments, or changes in payments are not allowed. All terms required of a first lien placed concurrently with a CalHome lien will apply.

D. The new lien must collect impounds to ensure that taxes and insurance will be paid in a timely manner.

E. The Recipient should obtain a copy of the insurance declarations to ensure they are still identified as an additional Loss Payee, and record a new Request for Notice of Default or Sale.

III. Record Retention:

A. The originals of legal documents (Promissory Note, Deed of Trust, Request for Notice of Default or Sale, Reconveyances and Cancelled loan documents, etc.) should be kept in a secure location with restricted access;

B. All documentation pertaining to the applications, loans, inspections, work write-ups, etc., or the operation of the Recipient's CalHome program should remain available to CalHome staff for three years after the termination of the grant or of the last extension amendment;

C. During this time, if CalHome determines an issue exists, the documentation must be retained and available for three years after the resolution of the issue;

D. At the end of the three year period from termination of the grant or extension, if there are no issues which need to be resolved, the Recipient may destroy copies of all documents deemed unnecessary for the purposes of loan servicing and the Recipient's needs. If issues have been found, destruction of records cannot occur until three years after the resolution of the issue(s).

Reuse Account

I. Introduction

All repayments of loan principal and any loan interest accrued shall be deposited to a separately maintained CalHome Reuse Account. This is a separate account from each of your active grant accounts. You only need to maintain one CalHome Reuse Account which is good for all CalHome activities and for all CalHome grants. The Reuse Account is governed by a Reuse Account Plan reviewed and approved by the Department. The Reuse Account Plan must be approved prior to first draw request.

Below are the items that are required in a CalHome Program Reuse Account Plan.

II. CalHome Requirements for a Reuse Account

A. An account established for CalHome funds which is separate from any other funding sources such as BEGIN, HOME, CDBG (no co-mingling of funds). This reuse account is separate from the working account and provides:

   1. A tracking system to ensure reuse of funds are used for appropriate activities as described below;

   2. Appropriate reporting ability including the source of the repayment including the borrower name and the grant year;

   3. Provides for timely processing; and tracking how the funds are re-spent;

   4. Any accrued interest earned on CalHome funds is to accrue to the CalHome Reuse Account.

B. Funds in the Reuse Account shall only be used by the Recipient for:

   1. Loans to individual homeowners or homebuyers as allowed pursuant to CalHome Program requirements;

   2. Loans made from the Reuse Account are not subject to the restrictions of the previous CalHome Standard Agreements. These funds are considered “washed” of their limitations because they are being used the second time around. For example, loans from the reuse account can be made to homebuyers in areas not previously allowed or in loan amounts differing from the prior loan amounts. The new loans only have to conform to the current Program Guidelines. If you wish to use reuse funds for allowable CalHome activities for which you do not have approved Program Guidelines, you will not need to submit Guidelines pertaining to that activity to HCD for approval, but you must have written guidelines for that activity and they must be made available to HCD if requested.

3. Loans made with some funds from the reuse account and some funds from the grant are **not** subject to the restrictions of the grant. For example you **can** add $20,000 in reuse funds to the $60,000 allowed in the 2010 grants to make a loan of $80,000, less ADF fees. Only one Promissory Note is used, and the Recipient should identify the amounts from both the active grant and the Reuse Account on the Borrower Summary.

4. The cost of the Homebuyer Education provided for each first-time homebuyer receiving mortgage assistance from the reuse account. A maximum of $350 per loan (not per borrower) is allowed;

5. A CalHome loan processing activity delivery fee for loans funded from the reuse account, as applicable, in accordance with CalHome Program requirements; and

6. Up to 5% of funds deposited may be used towards the costs of loan servicing by the Recipient or the cost of third-party loan servicing contracted by the Recipient.

C. The Department will monitor the reuse account according to the most current CalHome requirements.

D. Located in the Forms section is a CalHome Reuse Account Plan Check sheet that is to be used when submitting your Plan to the Department for review and approval.

PERFORMANCE REPORTING

I. Reporting Requirements

A. During the term of the CalHome Standard Agreement and, no later than 30 days after the end of each calendar quarter, the Recipient shall submit to the Department a Quarterly Status Report on the CalHome form provided by the Department.

B. During the term of the CalHome Standard Agreement and, no later than 30 days after June 30th of each year and/or within 30 days of the expiration date of the Standard Agreement, the Recipient shall submit, upon request of the Department, an Annual Status Report on the CalHome form provided by the Department.

C. At any time during the term of the CalHome Standard Agreement, the Department may perform or cause to be performed a financial audit of any and all phases of the Recipient's program or homeownership development project. At the Department's request, the Recipient shall provide, at its own expense, a financial audit prepared by a CPA.

II. Quarterly Reporting

A. The end of the quarterly reporting periods will be: March 31st; June 30th; September 30th; and December 31st.

B. The Quarterly Status Reports will be due no later than 30 days following the end of each quarter. The reporting period will begin the quarter of the execution of the Standard Agreement and continue for each quarter during the term of the Standard Agreement.

C. The Quarterly Report is to be made using the CalHome Quarterly Status Report consisting of:

1. A narrative summary section asking for a description of:

    a. Activities undertaken and completed during the last calendar quarter;

    b. Planned activities for the next quarter;

    c. Any problems that may impact fulfilling any Standard Agreement obligation;

    d. Data concerning this grant of CalHome in general; and

    e. Any comments.

2. A financial summary section asking for original grant amount, drawdown, and balance and percentage information.

3. Signature, Title and Date: The person submitting the Quarterly Status Report must be specifically authorized to sign this type of document and should provide his/her title, then sign and date the form. This form may not be signed by a staff person unless authorized through resolution.

III. Annual Reporting

A. The annual reporting period will be: July 1st to June 30th.

B. The Annual Status Report will be due no later than 30 days after June 30th. The reporting period will begin immediately following the execution of the Standard Agreement and be due each June 30th during the term of the Standard Agreement. An Annual Status Report will also be due within 30 days of the expiration date of the Standard Agreement.

C. The Annual Status Report is to be made using the CalHome Annual Status Report for the Active Grant form. This form must be returned to the Department by July 31 of each year or within 30 days of the expiration date of the Standard Agreement. It requests the following information in regard to the reporting period:

1. From the Recipient's CalHome Standard Agreement amount: (#1) the number of units assisted for the applicable activity; and (#2) amount of funds spent for the applicable activity;

2. A Financial Summary of the Recipient's CalHome Standard Agreement amount asking for the total funds drawn and used, the amount of the Reuse Account balance, and the total of funds the Recipient has in hand and available; and

3. Signature, Title and Date: The person submitting the Annual Status Report must be specifically authorized to sign this type of document and should provide his/her title, then sign and date the form.

IV. Annual Reporting of the Reuse Account

The annual reporting of the Reuse Account will continue for the length of 20 years, until the expiration date of the Monitoring Agreement. This report is required annually and is done after the Standard Agreement has expired. Due dates and information are provided in the same way as the Annual Report for each Active Grant, but will encompass all CalHome grants. The only thing that will be reported is what has specifically taken place in the Reuse Account during the last year.

MONITORING

I. Introduction

Monitoring is an activity performed by the CalHome staff to ensure that the CalHome grant is being used in a manner that complies with the Program regulations, requirements, statutes and the terms of the Standard Agreement.

The first step in the monitoring effort is to review the Recipient's Program Guidelines and program documents to assure compliance with regulations and the employment of best practices. The next step in the monitoring process is accomplished by a combination of desk reviews of Borrowers' Summaries, quarterly reports, annual reports, on-site visits and follow-up letters.

Prior to the Recipient's first request for funds, the Department of Housing and Community Development (HCD) and the Recipient will enter into a twenty (20) year monitoring agreement on a form to be provided by HCD. The beginning date of this monitoring agreement will be the same as the Standard Agreement and will expire 20 years after that date. The monitoring agreement is necessary because the Recipient's obligations for loan servicing and administration of its local reuse account extend beyond the term of the Standard Agreement.

Monitoring is done in many ways, starting as soon as the Recipient receives the Standard Agreement. The Recipient will be submitting documentation for review by the CalHome staff prior to and when requesting reimbursement of funds. There will be phone calls, correspondence, reports and possible office visits that keep CalHome staff aware of the progress and issues regarding the Recipient's Standard Agreement. We will be evaluating conformance to any unique program conditions and restrictions such as promises to work in a specific census tract or designated redevelopment area; to employ green building techniques; to use self-help labor or to employ universal design features in the homes. We will also be evaluating Reuse Account records and any Reuse Account activity.

CalHome staff may visit the Recipient's office for the specific purpose of "monitoring" its activity. Primarily this will involve questions regarding the Recipient's program operation and procedures and reviewing documentation in the Recipient's files. In the case of individual loans, this will involve reviewing a sampling of individual borrower files and may include interviewing a sampling of borrowers and inspecting their homes.

What will we be looking for? We will be looking for the back-up documentation that verifies compliance with the CalHome Program. The following will give the Recipient a general idea of the minimum documentation we will expect the Recipient to maintain in their files. It is not an exhaustive list and the Recipient may use forms or documents of their own in addition to the required CalHome forms or documents.

II. All Activities

A. Copies or originals as appropriate:

1. Plans and procedures for providing loan servicing.
2. CalHome Reuse Account plans and procedures.
3. CalHome Quarterly and Annual Reports.
4. Monitoring Agreement for loan servicing and reuse account.
5. Correspondence (including relevant e-mail) between the Recipient and HCD, along with notes of meetings or phone calls.

III. First-Time Homebuyer Mortgage Assistance Files

A. For each individual loan (copies or originals as appropriate):

1. Application for CalHome assistance.
2. Confirmation of first-time homebuyer status and household size.
3. Income and asset verification documentation and analysis.
4. Credit Report or other documentation required to show a good credit history.
5. Property sales contract, appraisal, preliminary title report.
6. For a newly constructed unit: the final inspection report and certificate of occupancy.
7. From the primary lender: The primary loan application; the conditional approval (MCAW or equivalent); and loan documents.
8. CalHome draw request forms including Borrower Summary Sheets.
9. CalHome Contributed Labor Certification Form, as required.
10. Documentation of completion of the required Homebuyer Education course.
11. CalHome loan escrow instructions.
12. From the escrow/title company: executed Promissory Note; recorded Deed of Trust; Title Insurance Policy for the CalHome loan naming the Recipient as the insured; Hazard Insurance, including flood insurance when applicable, naming

the Recipient as Additional Loss Payee; recorded Request for Copy of Notice(s) of Default or Sale; certified copy of the Settlement Statement.

13. Correspondence (including relevant e-mails) or notes of meetings or phone calls between the Recipient and the homebuyer, other lenders, title or escrow companies or other parties contacted in relation to the homebuyer's loan.

IV. Owner-Occupied Rehabilitation Files

A. For each individual loan (copies or originals as appropriate):

1. Application for CalHome assistance;

2. Confirmation of household size;

3. Income and asset verification documentation and analysis;

4. Credit Report or other documentation required to show a good credit history;

5. Appraisal or valuation of before- and after-rehabilitation value of the property;

6. Preliminary title report;

7. When applicable: mortgage verifications and/or loan verifications for any other debt already existing and recorded against the property;

8. Initial property inspection report; work write-up, cost estimate; bid package; executed construction contract; verification of selected general contractor and subcontractor licensing status with the Contractors State License Board; evidence of Workers' Compensation and Employer Liability Insurance; onsite inspection records and progress inspection reports for payment issuance, including a final inspection report and final line item budget of costs incurred;

9. Loan Agreement between the Recipient and the Borrower;

10. Copy of contract between Borrower and Contractor;

11. CalHome draw request forms, including Borrower Summary Sheets;

12. CalHome loan escrow instructions;

13. From the escrow/title company: executed Promissory note; recorded Deed of Trust; Title Insurance Policy for the CalHome loan naming the Recipient as the insured; Hazard Insurance, including flood insurance when applicable, naming the Recipient as Additional Loss Payee; copy of recorded Request for Copy of Notice of Default or Sale, copy of recorded Notice of Completion, and a copy of the Settlement Statement;

14. Correspondence (including relevant e-mails) or notes of meetings or phone calls between the Recipient and the homeowner, other lenders, title or escrow companies or other parties contacted in relation to the homebuyer's loan.

V. Homeownership Project Development Loan Files

A. For the Development Loan from HCD (Copies or originals as appropriate):

1. All documents submitted by the Recipient to HCD per the CalHome Program Development Project Loan Check sheet should have a corresponding copy or original, as appropriate, in the Recipient's files;

2. Construction Estimates; and

3. Bid Package for Site Improvement Work and documentation of selection process.

B. For the Mortgage Assistance Rollover of the Development Loan to Individual homebuyer households:

1. General:

   a. Full Reconveyance of Deed of Trust securing HCD's Homeownership Development Project Loan.

2. For each individual loan (Copies or originals as appropriate):

   a. Application for CalHome assistance;

   b. Confirmation of first-time homebuyer status and household size;

   c. Income and asset verification documentation;

   d. Worksheet; CalHome vs. Lender Income Comparison Worksheet;

   e. Credit Report or other documentation required to show a good credit history;

   f. Property sales contract, appraisal, preliminary title report, the final inspection report and the certificate of occupancy;

   g. From the primary lender: The primary loan application; the conditional approval (MCAW or equivalent); and loan documents;

   h. CalHome disbursement forms including Borrower Summary Sheets;

   i. CalHome Contributed Labor Certification Form, if required;

j. Documentation of completion of the required Homebuyer Education course;

k. CalHome loan escrow instructions;

l. From the escrow/title company: executed Promissory Note; recorded Deed of Trust; Title Insurance Policy for the CalHome loan naming the Recipient as the insured; Hazard Insurance, including flood insurance when applicable, naming the Recipient as Additional Loss Payee; recorded Request for Copy of Notice(s) of Default or Sale; certified copy of the Settlement Statement; recorded Notice of Completion; and

m. Correspondence (including relevant e-mails) or notes of meetings or phone calls between the Recipient and the homebuyer, other lenders, title or escrow companies or other parties contacted in relation to the homebuyers loan.

VI. Loan Servicing

A. Documentation of continued owner-occupancy.

B. Documentation of annual renewals of hazard insurance and, when applicable, flood insurance.

C. Documentation that property taxes and assessments are paid current.

D. Documentation of repayment of CalHome loans by individual homeowners including: requests for demand, demand letters, reconveyances of deeds of trust.

E. In the event of default and /or foreclosure, documentation of actions taken and attempts to recover all or a portion of the CalHome loan or loan amounts not recovered.

VII. Reuse Account

Copies or originals as appropriate:

A. CalHome Annual Reports.

B. Accounting records evidencing that a separate accounting is being maintained of deposit and disbursement of repaid CalHome loans.

C. Documentation that the amount of disbursements for loan processing or activity fees, homebuyer education or program administration do not exceed the amounts allowed per CalHome Guidelines/Regulations in effect at time of such disbursements.

D. For new loans to individual homebuyers/homeowners, the individual file documentation should be the same as what is listed above under First-Time Homebuyer Mortgage Assistance Files or Owner-Occupied Files, except there will be no draw requests forms submitted to HCD. The above-required documentation is subject to revision and files should be documented in accordance with CalHome requirements in effect at time of funding of the loans.

VIII. Conclusion

As stated at the beginning, this may not be a complete list. Any documentation the Recipient thinks will evidence the proper use of CalHome loan funds for the purposes for which funds were awarded and confirms the eligibility of individual households should be kept in the Recipient's files for three years beyond the term of the Standard Agreement or any extension thereof.

CalHome staff expects these monitoring visits to be a team effort. As well as conducting the necessary review for Program compliance, CalHome staff sees monitoring as an opportunity to learn more about the Recipient's projects, programs, operations, housing market and housing needs.

It is also our opportunity to find out what seems to be working well for our recipients and what possibly needs improvement or modification. It also lets us discover where our technical assistance has helped Recipients to comply and where we need to provide more training or clearer instructions. We can learn a lot from our clients that can lead to a better CalHome Program for all concerned.