

CITY OF HEMET
FIRST-TIME HOMEBUYER
DOWNPAYMENT ASSISTANCE PROGRAM (DAP)
RULES & REGULATIONS

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I. PURPOSE OF THE DOWNPAYMENT ASSISTANCE PROGRAM (DAP)

The City of Hemet has determined that the implementation of a First-Time Homebuyer Downpayment Assistance Program (DAP) is an opportunity to utilize HOME Program funds to assist eligible low income households (up to 80% of U.S. Department of Housing and Urban Development [HUD]) based on family size in the purchase of a house in the City.

The Downpayment Assistance Program (DAP) will provide a portion of the eligible purchaser's total Downpayment. Any home that is purchased through the Downpayment Assistance Program (DAP) must be affordable.

The City shall provide a maximum of HOME Assistance of up to \$15,000 per household to pay for costs associated with the acquisition of a housing unit. Such assistance shall be provided as gap finance, that is, an amount only necessary to complete the purchase transaction.

This subsidy to be provided to eligible First-Time Homebuyers will be made as a 30-year, partially deferred loan. The loan is deferred for the first 15 years. The principal is paid back in level payments over 15 years at a zero percent (0%) interest rate. The principle balance is also due and payable upon sale or transfer, or when the participant(s) cease(s) to reside in the residence. The maximum loan amount is \$15,000.

The deferred loan is not assumable by another low income buyer. The deferred loan does not bear interest in the conventional manner. The City will require annual certification from the program participants that standard hazard insurance is maintained in a specified amount and that taxes on the home are current.

II. PROGRAM HIGHLIGHTS

A. Target Population

Prospective First Time Homebuyers must meet certain eligibility requirements that they are low income as defined by the City of Hemet; that is, the purchaser(s) must have a gross annual income (adjusted for household size) that does not exceed 80% of the adjusted low income as established by the U.S. Dept. of Housing and Urban Development (HUD). (*See Attachment A*)

B. Selection of Applicants

For the purpose of the DAP Program, the following process shall determine the Program Participants. The City of Hemet will advertise the availability of First-Time Homebuyer Downpayment Assistance Program funds as follows:

1. Public Notice
2. Press Release
3. Notification to the appropriate Board of Realtors
4. Direct Notice to Non-profit entities and other Community Service Providers

The Downpayment Assistance Program (DAP) notices shall contain the following information:

1. Purpose of the program
2. Terms of financial assistance
3. Eligibility criteria
4. Income information
5. Beginning and ending dates of application to the DAP

After the thirty (30) day notice period, applications will be accepted on a first-come, first-serve basis. If at any time during the process a qualified applicant becomes ineligible according to any criteria set forth in the DAP, the applicant shall be eliminated from the program and the applicant next in priority shall be contacted.

C. Maximum Property Value

The maximum purchase price for a single-family housing unit that is to be assisted through the City's Program is **\$179,050** (property value).

III. DOWNPAYMENT ASSISTANCE PROGRAM (DAP) APPLICATION PROCEDURES

- A. Interested Program Applicants will contact the City to obtain a DAP application package. Included in the Application package shall be:
 - 1. DAP application form
 - 2. DAP employment and income verification form
 - 3. DAP/MCC Fact Sheet
 - 4. Statistical form
- B. The DAP applicant will submit a completed DAP application and shall be required to provide Federal tax returns for the prior three years. The applicant shall also be required to provide verification of current income, usually two months pay stubs.
- C. The City's Consultant shall date stamp each application upon receipt.
 - (1) The applications will then be processed on a first-come, first-serve basis
 - (2) The City's Consultant shall review each DAP application noting the seven eligibility requirements. For each eligible applicant, the City's Consultant shall obtain and review a credit report to determine the credit worthiness of each applicant. The Finance Director or his assignee will authorize the approval or denial of each DAP applicant.
- D. The City's Consultant will prepare the DAP pre-approval correspondence. This "reservation" shall be valid for ninety (90) days to enable an applicant to receive funding approval from a Lender chosen by the applicant and locate the housing unit.
- E. The City's Consultant staff may meet with the pre-approved DAP applicants to assist them in the completion of the necessary Lender application.
- F. At any time during the process an applicant becomes ineligible according to the criteria set forth in the DAP, the applicant shall be eliminated from the program and the next eligible applicant in priority shall be contacted.

IV. GENERAL ELIGIBILITY REQUIREMENTS - Application Screening Process

The prospective program participant must be a household with one or more persons and meet seven key Downpayment Assistance Program (DAP) eligibility requirements as follows:

- A. **"First-Time Homebuyer"** means an individual or individuals or an individual and his or her spouse who have not owned a home during the three-year period before the purchase of a home with HOME assistance, except that the following individual or individuals may not be excluded from consideration as a first-time homebuyer under this definition:
- (1) A displaced homemaker who, while a homemaker, owned a home with his or her spouse or resided in a home owned by the spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive twelve-month period and who has been unemployed or underemployed, experience difficulty in obtaining or upgrading employment and worked primarily without remuneration to care for his or her home and family;
 - (2) a single parent who, while married, owned a home with her or her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant; and
 - (3) an individual or individuals who owns or owned, as a principal residence during the three-year period before the purchase of a home with HOME assistance, a dwelling unit whose structure is:
 - (a) not permanently affixed to a permanent foundation in accordance with local or state regulating; or
 - (b) not in compliance with state, local, or model building codes and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.
- B. Must be low income as defined by the City of Hemet; that is, the purchaser(s) must have a gross annual income (adjusted for household size) that does not exceed 80% of the adjusted low income as established by the U.S. Dept. of Housing and Urban Development (HUD).
- C. Must occupy the purchased property as a **principal residence**. Temporary subleases are not allowed.

- D. Shall have sufficient resources (assets) to: (a) provide a minimum Downpayment equal to at least 1% of the purchase price and (b) pay for certain costs of the first mortgage loan (recurring closing costs) such as mortgage interest, property taxes and insurance. Household assets at the close of escrow ("maximum reserve") shall not exceed \$5,000 plus six months of total housing costs (*i.e., principal + interest + insurance + property taxes and assessment + homeowners association dues*) or a maximum of \$ 10,000 whichever is greater. This "maximum reserve" will only be allowed after the applicant has contributed the Downpayment necessary to ensure that no portion of the City's assistance is unsecured.
- E. Shall have sufficient income and credit worthiness to qualify for primary financing as defined by the selected Lender(s).
- F. Shall have an affordable housing cost expense ratio (front-end ratio) for the first mortgage loan of must not not fall below 25% nor exceed 33% of the participant(s) gross monthly income.

V. DETERMINATION OF ADJUSTED GROSS INCOME

- A. In calculating adjusted gross income, all of the income of the applicant and other household members 18 years of age or older and not full-time students shall be considered as follows:
 - 1. The full amount, before any payroll deductions of wages, salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services;
 - 2. The net income from an operation of a business or profession, as calculated by averaging the net income manifested by their Federal income taxes for the past three years. **NET Income is defined as the amount of net profit shown on line 31 of Schedule C, Federal Tax Return, *plus* depreciation, *plus* amortization, *plus* rent deductions for use of the home as a business expense;**
 - 3. Interest, dividends, and other net income of any kind from real or personal property (where the family assets in excess of \$5,000, excluding property, adjusted gross income shall include the greater of the actual income derived from all assets or percentage of such assets based on the current passbook savings rate);
 - 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, including a lump-sum payment for the delayed start of a periodic payment;

5. Payment in lieu of earnings, such as unemployment, worker's compensation, severance pay, welfare assistance ***Please refer to III (B)(7), on the previous page. for additional Information regarding employment status*** (NOTE Such payments may be excluded by the lending institution providing the first mortgage, for purposes of underwriting, but shall be included in eligibility determinations for this program.);
6. Periodic and determinable allowances, such as alimony and child support payment, and regular contributions or gifts received from persons not residing in the dwelling to the extent that such payments are reasonably expected to continue;
7. All regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the family, spouse, or other person who dependents are residing in the unit;
8. Any earned income tax credit to the extent its exceeds income tax liability; and
9. Any other income that must be reported for Federal and state income tax purposes.

B. Exceptions in the Determination of Adjusted Gross Income

The following exceptions shall apply in the determination of adjusted gross income:

1. Payments received for the care of foster children;
2. Amounts specifically excluded by any federal or state statute from consideration as income;
3. Casual, sporadic, or irregular gifts;
4. Amounts that are specifically for, or in reimbursement of, the cost of medical expenses;
5. Lump-sum additions to family assets, such as inheritance, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses (these items shall be considered as assets for the purpose of this program); and
6. Amounts of education scholarships paid directly to the student or to the educational institution, and amounts paid by the government to veterans for use in meeting the costs of tuition, fees, books, and equipment.

VI. ASSETS FOR THE DETERMINATION OF ELIGIBILITY

For the purpose of the DAP, the following will be considered assets for determination of eligibility:

- A. Cash savings, marketable securities, stocks, bonds and any other form of capital investments other than IRA, KEOGH plans or other retirement vehicles; and
- B. Inheritances, lump sum insurance payment;

IV. REFERRAL TO DAP LENDER

- A. The Lender(s) is responsible for the warrant of the City's Downpayment Assistant Program loan documents (Promissory Note and Subordinate Deed of Trust).
- B. The City's Consultant may assist the program applicant in the completion of the necessary application. Said documentation shall be submitted to the participating Lender(s) to enable the Lender to determine the amount of purchase funds that may be available to a qualified applicant. For Low income households at or below 80% of adjusted median, the affordable housing cost shall not exceed 33% of the households monthly income nor fall below the minimum that is 30% of the qualified applicant's gross monthly income, adjusted for family size appropriate to the unit.
- C. The Lender shall inform the City and applicant regarding the applicant's ability to borrow funds for the first mortgage (APPROVAL or DENIAL).
- D. Lender shall originate a thirty (30) year, fixed-rate, level payment mortgage, with any penalties and other such terms, if any. **UNDER NO CIRCUMSTANCE SHALL REBATE PRICING BE ALLOWED. ALL CITY LOAN FUNDS MUST BE SECURED AS A SECOND DEED OF TRUST. INCLUDING ANY FUNDS USED FOR CLOSING COSTS WITH MAXIMUM COMBINED LOAN TO VALUE ("CLTV"), NOT TO EXCEED 97% OF THE CURRENT APPRAISED VALUE.**

V. FIRST-TIME HOMEBUYER TRAINING COURSES

The Downpayment Assistance Program (DAP) requires that all pre-approved applicants attend five sessions regarding home ownership topics either through the City of Hemet's workshop (or other community workshops) or the Lender as follows:

- A. Preparing for Home Ownership

Identifying what Applicant wants and needs in a home, determining what Applicant can afford to spend.

B. Shopping for a Home

Size requirements, how a real estate agent can help, House evaluation, submitting an offer, professional home inspection process.

C. Obtaining a Mortgage

Discussion of loan terms, loan processing.

D. Closing

Title insurance, termite inspection, estimate of closing costs, advance payments, understanding the obligation, procedures for the formal loan closing.

E. Life as a Homeowner

Identifying the basic steps to ensure home safety, Basic steps for maintenance, basic steps for setting a household budget.

VI. PROPERTY SELECTION PROCESS

A. Upon Lender approval, the eligible household will locate an eligible property that is for sale.

B. All homes purchased with Downpayment Assistance Program (DAP) funds must be single family, attached or detached, residences, located within the limits of the City of Hemet and designated for residential use under the Hemet General Plan. If applicable, homes located within neighborhoods designated in need of reinvestment will be given a higher priority.

C. Prospective homebuyers may select from any residential property within the City (including pre-1978 construction), however, the property must be assessed for lead based paint and proper removal/abatement procedures followed. (See lead based paint requirements under Section VII below).

D. Seller shall be provided with the required Acquisition Notice. Such Notice shall inform the Seller that:

(1) That Purchaser has no power of eminent domain and will not acquire the property if negotiations fail to result in an amicable agreement.

(2) Of the Fair market value of property.

(3) That Seller may withdraw from Agreement if Notice was not provided prior

to purchase offer.

- E. At the time of occupancy, the property must comply with City of Hemet's local building codes and must be free from any defects that pose a danger to the health and safety of the occupants. Homes must be inspected by a certified home inspection firm. The home inspector must inspect property to identify violations of health, safety, and building codes.

In addition, the First-Time Homebuyer must agree to maintain the property for the term of the City's deferred loan in such a manner that the property meets minimum property standards as determined by the City's local Building and Zoning Codes.

- F. The selected home must be considered "affordable", that is, all monthly housing costs shall not exceed Program limits. In calculating housing costs, all of the following associated with the housing unit shall be included:
 - 1. Principal and interest on the first mortgage loan, including any loan insurance fees;
 - 2. Property tax and assessments;
 - 3. Fire and casualty insurance covering the replacement value; and
 - 4. Homeowner association fees, if any.
- G. DAP applicant may retain a real estate agent for the purpose of locating and preparing an Offer to Purchase the selected eligible property or the applicant may negotiate directly with the seller. The escrow agent shall be selected by the Seller or Applicant.
- H. The City of Hemet strives to provide safe, decent housing with a minimum of disruption to residents and tenants within properties. Therefore, the City requires that ALL prospective first time homebuyers participating in the DAP program only select properties that are VACANT or SELLER-OCCUPIED for purchase.

VII. CLOSING/FUNDING REQUIREMENTS

A. Upon acceptance of the offer to purchase, the DAP applicant shall inform the City of the selection of an eligible property and request an inspection of the property by the City inspector. The DAP loan is contingent upon the property passing an inspection by the City's Building Inspector.

B. Lead Based Paint Requirements

Properties constructed prior to 1978 will require that a Lead Based Paint Notice be provided to purchasers. Prospective first time homebuyers will be informed that their units will be tested for the presence of lead based paint, if necessary. Lead paint shall be removed or otherwise abated before HOME assistance will be provided.

The Seller shall also receive a copy of this notice and shall be informed that lead based paint removal/abatement will be required for program eligibility. All related notices are provided as an attachment to this document.

The City will test units constructed before 1978 for the presence of lead based paint utilizing a licensed third party vendor. Any lead-based found as a result of these tests shall be removed and/or abated by the Seller before subsidy assistance.

If the selected property fails to pass inspection, the home shall be deemed ineligible for purchase with HOME funds until such time as the deficiencies are corrected. No program funds shall be provided to acquire a substandard property.

C. Lender Package

The selected Lender shall contact the City's Consultant with the necessary information to complete the transaction. Information shall include the following:

1. First Mortgage Lenders "Copy Package" including the appraisal.
2. The City's First-Time Homebuyers "Lender Certification Form" showing: (1) the requested City secured loan amount; (2) amount of applicant down payment; (3) first mortgage loan amount; (4) purchase price, (5) total available liquid assets, (6) gross annual income verified by lender, and (7) lender underwriter signature acknowledging there is no rebate pricing associated with the first mortgage loan.
3. Estimated Closing Cost Statement

D. CALCULATION OF SUBSIDY

1. The City's Consultant shall review all file documents and determine the amount that is necessary to complete the purchase transaction (Gap financing). Such a gap shall be determined by the following method:
 - a. Establish sales price including all closing costs
 - b. Subtract First Mortgage loan amount made by primary lender
 - c. Subtract Buyer funds
 - d. Calculate City deferred loan amount.

The subsidy shall not exceed the maximum loan amount of \$15,000 per household.

2. The City's Consultant shall prepare the necessary DAP loan documentation and submit it to the selected escrow agent for closing. Such documents shall include Fannie-Mae, FHA- and Freddie Mac-approved (a) Subordinate Deed of Trust; (b) Promissory Note; and (c) Disclosure Statement.
3. The selected Lender shall prepare all necessary Lender loan documentation and submit to the escrow agent for closing.
4. Selected escrow agent shall coordination the execution of the City's DAP loan documents. Thereafter, the escrow agent shall record the City's Deed of Trust with the Riverside County Recorder's Office.

VIII. RECAPTURE PROVISIONS

The City of Hemet shall provide First Time Homebuyer Downpayment Assistance Program (DAP) funds in the form of a 30-year loan, 15 years deferred, and fifteen years to pay the principal at 0% interest on a monthly basis.

- A. The recapture of the DAP loan is due upon:
 1. Sale to non-low income household
 2. When the property ceases to be used as the primary residence. Residency requirements shall be re-certified annually.
 3. Refinancing of principal balance.
- B. Repayment shall be calculated as the total deferred amount owed.
- C. Refinance of any outstanding first mortgage debt will be permitted only to reduce

the overall housing costs of the first-time homebuyer (i.e. reduction of interest rate from 8% to 6.5%). All subordination requests will be reviewed on a case by case basis by the City staff.

- D. Total repayment of the deferred loan with zero percent (0%) interest shall commence in the first month of the sixteenth (16th) year. It shall be paid in monthly installments.
- E. Recapture restrictions apply for the loan term of thirty (30) years (affordability period), regardless of the actual amount of HOME Assistance.

X. DEFAULT/FORECLOSURE

- 1. A DAP Default shall be invoked if the DAP applicant willfully and knowingly makes a false statement or representation, or knowingly failed to disclose a material fact for the purpose of qualifying for the Downpayment Assistance Program, or in failing to complete certifications, affidavits or recertification documents.
- 2. A Lender Foreclosure proceeding will cause the DAP loan to become due and payable, subject to any prior loan secured by the property.

XI. APPEAL PROCESS

- A. Appeals by any DAP applicant or other persons whose interest is adversely affected by any determination or requirement of the City may appeal to the Finance Director.
- B. The appeal must prove that the guidelines, rules and regulations of the DAP are not being met, or are arbitrary or capricious, or that the rules and regulations are not properly applied.
- C. Such appeals must be in writing.
- D. The Finance Director's determination shall not violate the DAP guidelines, rules and regulations. The Finance Director's determination shall be final.

XII. NON-DISCRIMINATION POLICY

The City and its Consultant support equal housing opportunity and shall not discriminate against any applicant for the Downpayment Assistance Program (DAP) on the basis of race, color, religion, sex, sexual preference, marital status, ancestry, or national origin.

APPENDIX A
DOWNPAYMENT ASSISTANCE PROGRAM
City of Hemet

INCOME CHART
80% of Adjusted Median Income

Number of Persons in Household	Eligible Income
1	\$27,950
2	\$31,950
3	\$35,950
4	\$39,900
5	\$43,100
6	\$46,300
7	\$49,500
8	\$52,700