

SELF-HELP ENTERPRISES CITY OF VISALIA

Affordable Housing Program

HOME funded

2nd mortgage loan

(for families at or below 80% AMI)

Program is administered by Self-Help Enterprises, and overseen by the City of Visalia Community Development Department (CDD) for Self-Help Enterprises Community Housing Development Organization (CHDO) HOME Investment Partnership funded single family properties.

Fair Housing- Equal Opportunity Act

SHE COV Affordable Housing Program established January 1, 2015



Self-Help Enterprises Affordable Housing Program
City of Visalia's HOME funded
2nd mortgage loan
Underwriting criteria
incorporated into Self-Help Enterprises Program Guidelines

Table of Content

- I. (HOME funded) 2nd Mortgage Program Guidelines
- II. Processing of Loan
- III. Loan Packages
- IV. City – Underwriting Criteria
- V. City- Loan Limits & Terms
- VI. Final Credit Decision
- VII. City File
- VIII. Contact Person

Self-Help Enterprises Affordable Housing Program
City of Visalia's HOME funded
2nd mortgage loan
Underwriting criteria
incorporated into Self-Help Enterprises Program Guidelines

January 2015

Underwriting criteria was created to assist the City of Visalia, Community Development Department (CDD) Staff, Self-Help Enterprises (SHE) a certified Community Housing Development Organization (CHDO) with the City of Visalia, and its underwriter in determining the eligibility of an applicant.

The borrower must meet the City, Program funding policies, procedures and regulations.

I. Overview

* The City of Visalia provided HOME Investment Partnership Funds, specifically Community Housing Development Organization (CHDO) funds to Self-Help Enterprises. Self-Help Enterprises (SHE), is a Certified CHDO with the City of Visalia, who has met the requirements in receiving these funds.

* SHE is utilizing Visalia's HOME- CHDO funds to acquire, rehabilitate and resell single-family dwellings within the City of Visalia limits to income qualifying households. The specific funds utilized shall be referenced within the applicants' file.

* Sale of Rehabilitated Qualifying Single-Family Properties. Following the rehabilitation of a Qualifying Single-Family Property, SHE shall use reasonable efforts to secure an Eligible Purchaser. SHE shall be responsible for the outreach, marketing, screening and intake of potential clients, case file preparation and management.

* Before any sale can occur, SHE shall provide the City with evidence satisfactory to the City that the following conditions have been met:

* The total cost of development of the Qualifying Single-Family Property, including acquisition, rehabilitation, and soft costs. As documented by SHE and provided to the City.

*Sales Price Valuation: The property resale may not exceed 95% of the

area median price based on an analysis conducted by Self-Help Enterprises, of the local market and reviewed by the City.

* The sale price shall be equal to or less than the fair market value, which shall be confirmed through an appraisal. If the property is sold below fair market value, the difference between the fair market value and the purchase price is considered to be part of the HOME subsidy and provided directly to the homebuyer as a direct subsidy. And, any additional subsidy provided to the homebuyer to enable them to purchase the property, which includes down payment assistance, closing costs, interest subsidies, or other HOME assistance including any assistance that reduced the purchase price from fair market value to an affordable price, shall be recaptured.

A 30- year covenant shall be recorded to maintain affordability. The SHE-CHDO Program covenant shall use the “Recapture Provision”, as referenced under 24, CFR 92.254 (a) (5) (ii) (A) (1) and shall begin the date the Deed of Trust is recorded. “Recapture Provision”, as referenced under 24, CFR 92.254 (a) (5) (ii) (A) (1) and shall begin the date the Deed of Trust is recorded. The City may recapture the entire amount of the direct HOME Subsidy from the homeowner and the difference between the fair market value and the purchase price, if the purchase price is below the fair market value and any additional assistance as referenced above. The amount to be recaptured will not exceed the amount of net proceeds available at the time the home is sold. HOME rule limits recapture to available net proceeds, therefore, if net proceeds are insufficient for the city to recapture the full amount of the Direct HOME assistance/investment, the City will recapture only what is available from net proceeds. This applies regardless of the nature of the sale (voluntary sales including short sales, and involuntary sales including foreclosures).

* Eligible properties are single-family properties acquired, rehabilitated and prepared for resale by Self-Help Enterprises, located within the City limits of Visalia.

* Upon sale, the property must be “owner-occupied” as a requirement of the program. The property must remain owner-occupied for a minimum of thirty (30) years for borrowers who obtain a second mortgage. In the case of the homebuyer selling the home during affordability period, the City may recapture the entire amount of the direct HOME Subsidy and the difference between the fair market value and the purchase price, if the purchase price is below the fair market value, and any additional assistance as referenced above. The amount to be recaptures will not exceed the amount of net proceeds available at the time the home is sold. HOME rule limits recapture to available

net proceeds, therefore, if net proceeds are insufficient for the city to recapture the full amount of the Direct HOME assistance, the City will recapture only what is available from net proceeds. This applies regardless of the nature of the sale (voluntary sales including short sales, and involuntary sales including foreclosures).

~~For borrowers who do not obtain a second mortgage loan, a fifteen (15) year Resell Restriction will be recorded against the property.~~

* HOME- CHDO funds were invested in the acquisition and rehabilitation of the property.

* If the borrower requires a second mortgage loan, derived from HOME funding. Rental or transfer of ownership of property will cause loan to become due and payable immediately (See Owners Participation Agreement for Recapture Provisions for details)

* The covenants and restrictions identified within it shall remain in effect until amended or either of the following termination events occur:

- The Property remains in the possession of an the Eligible Homebuyer and/or an Eligible Household for the entire Period of Affordability; or
- Foreclosure, transfer in lieu of foreclosure, or assignment of an FHA-insured loan to HUD.

* To confirm income eligibility, the Participant will complete an application and income eligibility forms (See Income Worksheets and Income inclusion & exclusion definition), Household with gross income at or below 80% of Visalia Area Median Income (AMI) are eligible. (Visalia AMI is defined as HUD HOME Income Limits for Visalia-Tulare-Porterville MSA – County Code 107) The City will not approve application until confirming eligibility based on limitations to the City's funding sources.

* The Participants Primary (first) mortgage must hold a fixed interest rate, a minimum of a thirty-year term, as well as a housing/income ratio (principal, interest, insurance, and taxes) between 30% to 35% of the gross household income, based on 24 CFR 5.609 criteria. The program requires that the household's total debt ratio cannot exceed 43% of the gross household income, which includes other monthly obligations.

* Participants' primary mortgage must include impounds for taxes and insurance, including flood and homeowners association dues (if applicable).

*** City is a second mortgage lender only:**

- City will provide secondary loans for a thirty-year term.
 - The loan shall be in the form of a second trust deed secured by a Note and Deed of Trust.
 - Payments on the loan may be deferred, at the election of the Eligible Homebuyer, for ten (10) years, beginning at the time of execution of the Note.
 - Interest will accrue at two percent (2%) beginning on the first day of the eleventh (11th) year following the execution of the Note.
 - Payment shall commence at the conclusion of the deferral period in accordance with the terms of the Note required by this Agreement, and will be applied first to the servicing fee indicated in the borrower's Truth In Lending, then to accrued interest, and finally to principal.
 - The deferred payment principal and interest shall become immediately due and payable at such time as either:
 - (1) the Eligible Homebuyer or immediate family member ceases to maintain continuous residence on the property; or
 - (2) title to the property is transferred; or
 - (3) the property is refinanced. For the purpose of this paragraph, the term "immediate family" includes only the Borrower's spouse and/or children.

* Participants may utilize up to 10% of the total acquisition & rehabilitation cost incurred by SHE on the Qualifying Single-Family Property as down payment assistance (2nd mortgage loan to be carried by the City of Visalia, from Self-Help Enterprises proceeds). No additional funds will be provided.

* Maximum loan may not exceed ten percent (10%) of the total property investment as referenced above. This will be determined on a case by case basis. The City and Self-Help will work together to determine the dollar figure.

* The interest rate shall be at two-percent (2%) accrue simple interest, beginning on the first day of the eleventh (11th) year following the execution of the Note.

* Payments on the loan shall be deferred for ten (10) years, beginning at the time of execution of the Note.

* Co-borrowers, other than co-occupants, are not permitted (this is to prohibit investors from utilizing a qualified person to purchase a property for their own investment purposes and their financial gain).

* SHE will provide underwriting and document preparation services for the City of Visalia. Resulting loans will be serviced by AmeriNational Community Services, Inc. according to its existing loan servicing contract with the City of Visalia.

* No funds will be wired for the second mortgage, as the funds are derived from Self-Help Enterprises proceeds from the sale of the property.

* City and SHE to verify income documentation certified by the eligible purchaser. Verification and eligibility will be confirmed by both SHE and City, including but not limited to: (a) pay stubs (most recent 3 months), three (3) years of income taxes or other HUD or City approved documentation, (b) completion by Eligible Purchaser of HUD certified- Housing Counseling through SHE.

* SHE shall transfer a Subject property to an Eligible Purchaser, subject to the obligations of SHE to the City contained in the Note and Deed of Trust between SHE and City required by this Agreement. City agrees to allow SHE to transfer those obligations to an Eligible Purchaser at the close of escrow on a Qualifying Single-Family Property. In order to transfer its obligations to an Eligible Purchaser, Developer shall ensure that the Eligible Purchaser executes an Assumption Agreement, in a form substantially similar to the "Form of Assumption Agreement" which will be provided to SHE by City.

* Security documents to be recorded against a Qualifying Single-Family Property shall be recorded in the Tulare County Assessor's Office.

II. Processing of 2nd Mortgage Loan

- A. Self-Help Enterprises (SHE) will work with the Participant in completing the application and determine initial income eligibility.
- B. City CDD staff will review Participant's completed application to confirm income eligibility.
- C. Primary Mortgage Lender will be required to submit all borrower's primary mortgage loan underwriting and related documents to Self-Help, for review and preliminary approval. The City will provide the final review and approval of all loans provided through the program.
- D. Self-Help will underwrite the City's loan as per FAP -II Program (per HOME funding requirements) and provide a Final Loan Recommendation (FLR), to approve or deny, within 10 working days to CDD. CDD will then obtain the final approval by the City of Visalia's Loan Review Committee and/or the Community Development Director and return the decision to SHE

for loan completion. SHE will provide an approval letter to the lender, which outlines the loan approval conditions.

- E. Once Pre-funding Approval is signed, Participant has up to 60 days to complete escrow. This time may be extended by the CDD or a request to extend the escrow may be submitted to CDD with explanation/reason for request.
- F. CDD will authorize SHE to proceed with loan documentation preparation by returning a signed Final Loan Recommendation.
- G. When problems arise on loan application packages, which need resolution or clarification, SHE will contact CDD, and/or the lender.
- H. Loan Documents will be drawn by SHE and sent directly to the local title company. If applicable, City staff may assist.
- I. Loan documents will be executed with the applicant by a local Title Company.
- J. Local Title Company will be responsible for insuring documents are properly recorded and City is in proper lien position according to Escrow Instruction.
- K. Loans will be serviced by AmeriNational Community Services, Inc.

III. Loan Packages

- A. Self-Help Enterprises CHDO 2nd Mortgage Program Application to include:
 - 1. Statement of Household Compositions to include, Name, Age and Relationship to everyone who will occupy the household.
 - 2. Income Eligibility Form (titled: First Time Homebuyer, up to 80% of Median Certification, worksheets 1, 2, 3, & 4) (Attachment U, T) City to provide median family income amounts annually, to SHE & AmeriNational. <http://www.huduser.org/portal/datasets/il.html> program eligibility requirement. (Go to the site for most recent income limits-Visalia – Porterville MSA)
 - 3. Verification of purchase price to confirm it does not exceed the HUD maximum.
- B. Standard Lender Forms required for Applicant Eligibility
 - 1. Uniform Residential Loan application (1003), completed and signed or other applicable loan application.
 - 2. Preliminary Title Report
 - 3. Appraisal/Fair market valuation (Note: A copy of the appraisal must be

submitted to the City of Visalia via email or fax prior to city loan approval and a copy must be maintained in the loan file).

4. Good faith estimate
5. Lender's Underwriting Worksheet (Signed 1008, 1003) or Mortgage Credit Analysis Worksheet (MCAW).
6. Credit Report
7. Three years signed and completed tax returns including W2's
 - i. If borrower has a business, current profit and loss statement is also required with the income taxes.
8. Proof of Fire Insurance and Flood Insurance (if applicable) (City to be listed as 2nd Mortgagee).
9. Copy of Escrow Instructions signed by the Seller and the Participant
10. All appropriate verifications including but not limited to:
 - i. VOE's (signed by employer and employee)
 - ii. VOD's or Bank Statements (3 months complete bank statements or verification of deposits required (**See attached verification forms Note: must be completed and signed**))
 - iii. Paystubs (most current; 3 months paystubs).
 - iv. Gift letters and supporting documentation, when applicable.
 - v. Explanation of derogatory credit.

*Primary Lender to forward SHE final primary mortgage approval upon completion.

- C. Standard documents to be completed prior to closing (original documents to be held by City of Visalia, duplicates held by Self-Help Enterprises and AmeriNational Community Services, Inc.)
 1. Notice of right to cancel
 2. Truth in Lending
 3. Promissory Note
 4. Deed of Trust
 5. Owners Participation Agreement
 6. Request for Notice
 7. Lender's Escrow Instructions (including Conditions to Close)

8. Flood Insurance documentation
9. Hazard Insurance documentation

IV. City- Criteria

A. Participant Qualifications

1. Assets are to be reported; however, only income from assets is counted as household income, not asset value.
2. Maximum income up to 80% of AMI adjusted for family size (See HUD Income Limits)
 - a. Income determination should be based on 92.203 (b) (1) of 24 CFR, refer to 24CFR 5.609
 - b. Debt Ratios:
 - i. Front End ratios shall not exceed 35%. Guideline for housing expenses: This ratio is the result of dividing the housing expenses for the proposed loan by the monthly income of the borrower(s). This includes the monthly principal and interest payments that are stipulated on the mortgage note. In addition, the monthly housing expenses include a monthly amount for the property taxes and hazard insurance (1/12 of the annual taxes and insurance). There may be other expenses, such as condominium fees, homeowners fees, special assessments, etc., that are included.
 - ii. Back End ratios shall not exceed 43%. Guideline of total monthly debt obligations: This ratio is the result of dividing the housing expenses for the proposed loan plus the borrower(s) other monthly credit obligations by the monthly income of the borrower(s). These include monthly credit obligations, such as installment payments, revolving charge cards or other borrower obligations that will continue longer than 10 months. Usually, 5% of the current balance of a revolving charge account is used for the monthly payment.-
 - a. Credit Report:
 - i. if more than three derogatory accounts in the past three years are identified (by the “Open” date), then explanation should be provided by the borrower and noted on file
 - ii. no bankruptcies within the past two years
 - iii. no foreclosures within the past three years
 - b. No-established credit is acceptable if Participant has approved proof of timely payments of utilities, rents, or other fixed monthly obligations. No additional layers of risk are advisable for applicants with non-traditional credit.
 - i. At least 4 non-traditional credit references, for a period of 12 months or more, should be developed, comprised of the following:
 - a. Rental or housing payment

- b. Utility payment records
- c. Insurance payments
- d. Payments to a retail store

B. City providing 2nd MORTGAGE LOAN ONLY:

1. Requirements of First Mortgage: Borrower meet Participant Qualifications listed above.
 - a. 1st mortgage must be a fixed interest rate.
 - b. Taxes, Insurance and HOA dues must be impounded on the first mortgage.
 - c. Lowest trust deed position for City: 2nd
2. Terms of City Second Mortgage:
 - a. Maximum loan amount: \$ (TBD by Self-Help & City, and be no more than 10% of the total acquisition & rehabilitation cost of the Property)
 - b. The loan shall be in the form of a second trust deed secured by a Note and Deed of Trust.
 - c. Deferred loan –10 years.
 - d. Repayment – Payments on the loan shall be deferred for ten (10) years, beginning at the time of execution of the Note.
 - e. Interest will accrue at two percent (2%) beginning on the first day of the eleventh (11th) year following the execution of the Note.
 - f. Payment shall commence at the conclusion of the deferral period in accordance with the terms of the Note required by this Agreement, and will be applied first to the servicing fee indicated in the borrower’s Truth In Lending, then to accrued interest, and finally to principal.
 - g. The deferred payment principal and interest shall become immediately due and payable at such time as either:
 - i. (1) the Eligible Homebuyer or immediate family member ceases to maintain continuous residence on the property; or
 - ii. (2) title to the property is transferred; or
 - iii. (3) the property is refinanced. For the purpose of this paragraph, the term “immediate family” includes only the Borrower’s spouse and/or children.
 - h. Due upon sale, transfer or unit becoming non-owner occupied

- i. Subordination agreement: (2nd position to primary lender) (no cash out allowed)
 - j. Loan is not forgivable
3. The participant(s) must obtain fire insurance and flood insurance (if applicable) coverage on the property from the date of closing. The City to be listed as 2nd mortgagee on the policy and the policy must be sufficient to protect the City's full interest in the property.

A. Fees (Estimated Fees)

Underwriting fee: \$375.00	Document Prep: \$ 175.00
Loan warehousing: \$ 125.00	Tax Service: \$ 75.00
Wire Transfer Fees: \$ 55.00 for 2nd Trust Deed	

VI. **Final Credit Decision** After SHE has reviewed the loan package, there can be four outcomes:

A Approval: If the loan is in good standing, meeting the criteria, and the underwriter has no questions, the loan will be approved with no conditions.

B Approved with conditions (the most common response):

- i. If the underwriter needs additional documentation before a final decision can be made, a "prior- to- document" conditional approval will be rendered. In essence, the loan documents will not be prepared until the condition has been satisfactorily met. An example of a "prior to document" condition could be a pay stub to validate the borrower's income.

C Suspended: Sometimes the underwriter will be unable to make a decision on a loan file because it is either incomplete or there are many unanswered questions. In these cases, the underwriter will ask for additional information from the borrower before an underwriting decision is made. An example of a suspension may be large gaps in the borrower's previous employment history and no tax returns to indicate the place of employment.

D Denial: Underwriters will be unable to approve a loan if the loan file has substantial deficiencies and does not meet the minimum standards of the City. AmeriNational will provide the City with a Final Loan Recommendation. If denial is recommended, a second review of the loan recommendation will be made by the City's Loan Committee before a final denial is communicated to the borrower. Denial letters with the reason for denial are sent to borrowers within 3 days of the final credit

decision. Underwriting criteria can be different among lenders and a borrower may find other acceptable alternatives in the market place.

VII. City File

A. Applicant File shall contain the following:

1. Pre-Funding Reservation Request (must have a City project # and signed off by City Staff)
2. (Pre 1978 homes) Copy of Lead Certification shall be placed into Phase III file
3. Flood Hazard Area Notice (Verification of Flood Insurance and zone is required)
4. Fair Lending Notice
5. Sellers Lead Based Paint Disclosure (Disclosure of Information on Lead-Based Paint and/or Lead-Based Paint Hazards Lead Warning Statement)
6. Participant eight (8) hour Counseling Certificate of Achievement (mandatory)
7. Other applicable disclosures (i.e. airport zone)

VIII. Contact Person (submit original City loan documents and copies of all other documents used in eligibility determination)

Self Help Enterprises
Juan Jaime
8445 W. Elowin Court
Visalia CA 93291
(559) 802-1642
juanj@selfhelpenterprises.org