

ASSESSORY DWELLING UNIT (ADU) LOAN PROGRAM

POLICIES AND PROCEDURES

Self-Help Enterprises (SHE) will provide financing to eligible property owners seeking funding to build or repair Accessory Dwelling Units (ADU) on their existing single-family lot. The program targets the City of Clovis' existing ADU Program (Cottage Home Program), and may be used in other communities within SHE's service area as opportunities arise upon prior notification and consent from CalHFA.

The goal of the program is to increase housing densities in existing neighborhoods, provide affordable housing opportunities for extended family members and low and moderate-income persons, and create viable economic opportunities for owners to maximize the use of their properties.

SHE LOANS TO OWNERS

Loans will be available to owners who intend to add an ADU. Borrowers must be owner occupants of the property and have an income at or below CalHFA's published income limits by county to be eligible.

Income will be determined using CalHFA income calculation guidelines as set forth in the CalHFA Lender Program Manual.

FUNDING TERMS

Household income, debt to income ratio, and loan-to-value are all factors in whether an owner/borrower is eligible to receive a loan. Loan terms shall include:

Loans

- Minimum loan amount is \$50,000 with a maximum of \$80,000.
- A \$250 non-refundable application fee is required, and must come from borrowers' funds.
- A 2.5% processing fee will be charged based on the loan amount at loan closing, which can be financed as part of the loan.
- Loans will be charged interest between 3.00% – 4.98%, dependent upon the loan amount.
- Interest only payments will be required on funds disbursed during construction.
- After completion of construction, loans will have a minimum term of 5 years (60 months) and a maximum of 8 years (96 months).
- Loans are amortized with equal monthly installments for the term of the loan upon completion of construction. A schedule of all payments delineating interest and principal will be provided to the borrower at loan closing.
- Loan may be in up to fourth security interest priority, depending on overall LTV.
- All loan funds (principal and accrued interest) are due and payable in full upon sale or transfer of property prior to the end of the loan term.
- Loans are not assumable.
- There are no prepayment penalties.
- No subordination of security interest will be made on new debt.
- Transfers only permitted with Lenders prior written approval.

Insurance

Borrowers of ADU loans are required to carry a homeowner's/liability insurance policy, which lists SHE as a Mortgagee for an amount equivalent to the full encumbrance of the borrowed funds. Required policies include:

- Fire insurance
- Flood insurance if the property is located in a flood zone as determined by <https://www.interflood.com/getmaps.aspx>

ELIGIBLE USES OF LOAN PROCEEDS

- ADU construction (cost estimate to be approved by SHE)
- Permits, impact, and connection fees
- Loan fees & escrow charged by lender

SECURITY AND LOAN DOCUMENTS

- Promissory Note in favor of SHE
- Loan Agreement
- Recorded Deed of Trust on subject property
- Recorded Request for Notice of Default

SHE APPROVAL PROCESS

- Underwriting review by Analyst/Manager/Broker at SHE
- Proposal for loan approved by Program Director
- Final approval by CEO

PROCEDURES

APPLICATION PROCESSING

Applications will be processed on a first come, first served basis. Closing will depend upon completeness of information provided, demonstrated readiness to proceed, and loan recordation procedures.

APPLICANT ELIGIBILITY

Preliminary Applicant Eligibility

- Review household income as stated on application to determine whether the household(s) is in the eligible income range; if so
- Credit report from borrower will determine credit worthiness and establish debt to income ratio (borrower pays for credit report).

Income and Property Verification

Applicants that are determined income-eligible at the time of application review and are confirmed creditworthy will move to a full underwriting process, upon submittal of \$250 non-refundable application fee as follows:

Underwriting Requirements

- Property Ownership
 - Applicant must possess fee simple title of the property for the proposed project.
 - Ownership will be verified through a property profile from a title company of SHE's choice, and confirmed through a Policy of Insurance of Record Title (PIRT)
 - Borrower Income must not exceed CalHFA Income limits (for 2019, see <http://www.calhfa.ca.gov/homeownership/limits/income/income.pdf>, which are updated annually.
 - Income will be calculated using CalHFA income calculation guidelines as defined in Section VII. Income Eligibility of the CalHFA Lender Program Manual, <https://www.calhfa.ca.gov/homeownership/bulletins/manual.pdf>, which may be amended from time to time.
 - SHE reserves the right to request any additional information it deems necessary to determine income eligibility.
- Affordability Determination
 - Total monthly debt (including any monthly payment on proposed ADU loan) is divided by the applicant's monthly income to determine the debt to income ratio.
 - Credit review required: Minimum of 620-640 FICO, no late payments in last 12 months.
 - Total Debt to Income Ratio cannot exceed 45%
 - A credit report will be requested to identify all debts owed by the applicant.
 - Equity Determination
 - Combined Loan-to-Value (CLTV) cannot exceed 100%.
 - Value will be determined by an appraisal (paid for by borrower) that will include the value of the existing property with improvements, as well as the proposed ADU.
 - Total liens on the property are determined by evaluating the property profile, credit report, mortgage statements and/or the PIRT.
 - Equity is derived by subtracting the total outstanding lien(s) from the estimated value.

Interest Rates, Terms and Fees

Interest will be determined by the amount of the loan and a processing fee of 2.5% will be charged on each loan according to the table below:

| Loan Amt. | Int. Rate | 2.50% Processing Fee |
|-----------|-----------|----------------------|
| \$ 80,000 | 3% | \$ 2,000.00 |
| \$ 75,000 | 3.2% | \$ 1,875.00 |
| \$ 70,000 | 3.45% | \$ 1,750.00 |
| \$ 65,000 | 3.75% | \$ 1,625.00 |
| \$ 60,000 | 4.10% | \$ 1,500.00 |
| \$ 55,000 | 4.50% | \$ 1,375.00 |
| \$ 50,000 | 4.98% | \$ 1,250.00 |

The term of each funded loan will be for a minimum of 5 years and a maximum of 8 years, with monthly payments required. The borrower may request a shorter loan term if ratios allow it.

SHE will follow all noticing requirements and disclosures as required by TRID.

LOAN DOCUMENTS AND AGREEMENTS

Loans will be made with an executed Promissory Note and Loan Agreement between borrower and SHE. All loans will be secured by a recorded Deed of Trust and Notice of Default.

LOAN APPROVAL

Upon eligibility determination and underwriting, loan requests will be reviewed with SHE's loan committee for approval. Loan documents will be signed by SHE's CEO and arrangements will be made with the applicant to sign loan documents, as well as any required disclosures. Once both parties sign documents, a three-day rescission period will be given to the applicant prior to recording of the documents. During this period, the borrower may withdraw from the transaction with no penalty. However, application and credit report fees will not be refunded under any circumstances.

A Notice to Proceed will be issued to the property owner allowing them to begin construction.

PROJECT CONSTRUCTION

Loan proceeds will be paid directly to the construction contractor with the approval of the borrower at various stages of construction, which will be verified as completed by SHE's construction specialist. A 10% retention will be withheld proportionately with each payment and released 35 days after final inspection and all punch list items are satisfactorily completed. Lien releases will be required from the contractor with each subsequent payment.

Lenders title insurance policy (Alta) to follow up on recordation of deed of trust and request for notice, naming Self Help Enterprises as beneficiary insured for the full loan amount, paid by buyer.

LOAN PAYMENTS

Borrower will be given a schedule of required monthly payments at loan closing. Monthly payments will be made to Self-Help Enterprises by mail to:

Loan Portfolio Management
P.O. Box 6520
Visalia, CA 93290

Payments can be made in person at SHE offices:

Loan Portfolio Management
8445 West Elowin Court
Visalia, CA 93291

Late fees will be assessed in accordance with the loan agreement.