

**PROGRAM GUIDELINES
FOR THE
BANNING HOUSING AUTHORITY
DOWN PAYMENT ASSISTANCE PROGRAM**

(BHA-DAP)

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Table of Contents

Definitions	Page 3
1. Purpose of the Down Payment Assistance Program (DAP)	Page 6
2. DAP Program Highlights	Page 6
3. Program Outreach and Marketing	Page 8
4. Down Payment Assistance Program (DAP) Application Procedures	Page 9
A. Mortgage Lender Phase (First Mortgage Pre-Approval)	Page 9
B. BHA DAP Application Phase	Page 11
C. DAP Commitment Phase	Page 12
D. Final Approval Phase	Page 13
E. Closing Phase	Page 14
5. DAP Applicant Eligibility Requirements	Page 14
6. Determination of Household Annual Income	Page 16
A. Annual Income Inclusions	Page 16
B. Annual Income Exclusions	Page 16
7. DAP Lender Responsibility	Page 17
8. Property Eligibility Requirements	Page 19
9. Calculation of Subsidy	Page 20
10. First-Time Homebuyer Training Course	Page 21
11. Closing/Funding Requirements	Page 21
12. DAP Loan Servicing	Page 22
13. Satisfaction of DAP/Recapture Provisions	Page 23
14. Default/Foreclosure	Page 23
15. Appeal Process	Page 23
16. Non-Discrimination Policy	Page 24
17. Disclaimer	Page 24

Definitions

Affordable Housing Cost – as set forth in 25 California Code of Regulations Section 6920 which shall include: principal, interest, and fees associated with mortgage loans, property taxes and assessments, fire and casualty insurance, property maintenance and repairs, reasonable utility allowance, HOA fees, and space rent, if any.

Application – shall mean the application and all documents required by the Banning Housing Authority (HHA) to evaluate an Applicant’s qualifications and eligibility for a Down Payment Assistance Program (DAP) Loan.

Applicant - shall mean any person interested in participating in the DAP.

Appraisal – shall mean that independent opinion of Fair Market Value (FMV) of the Eligible Single Family Dwelling (ESFD) tendered by a licensed California Real Estate Appraiser.

Area Median Income (AMI) - shall mean the annual Area Median Income (AMI) for Riverside County, adjusted for household size, as published by the California Housing and Community Development Department (HCD) pursuant to California Code of Regulations, Title 25, Section 6932, or successor provision.

Back end ratio – shall mean all household debt including installment and revolving debt obligations as a percentage of total household income.

Basis – Shall mean the original Fair Market Value (FMV) of the Qualified Single Family Residence (QSRF) as determined by an independent appraisal approved by the BHA at the time of DAP Loan origination.

City – shall mean the City of Banning.

Close of Escrow – shall mean that date when all conditions and requirements of the Residential Purchase Agreement (RPA) have been performed by the Buyer and Seller to the satisfaction of the Escrow Officer, including but not limited to the execution of all loan documents of the First Mortgage and DAP Loan, thereby allowing for closing of the transaction and recording of the deeds of trust.

Closing Costs – shall mean those costs and expenses typically required to consummate a real estate purchase contract including but not limited to: escrow fees, title insurance costs, real property taxes, casualty insurance, and other customary costs and expenses as evidenced by a HUD-1 and Closing Statements.

Combined Loan-to-Value (“CLTV”) – shall mean that calculation taking into consideration the combined principal balances of the First Mortgage and DAP Loans divided by the FMV of the QSRF resulting in a percentage e.g. 95%.

Down Payment Contribution – shall mean those cash resources of the Applicant that shall be contributed and applied towards the Closing Costs of the transaction and the purchase price of the QSRF respectively with the amount based upon total household income.

Eligible Borrower – shall mean any Applicant that has identified and contracted for the purchase of a ESFD and met all the requirements of a First Mortgage Lender as evidenced by a conditional approval letter which shall enable participation in the DAP.

Eligible Single Family Dwelling (ESFD) – shall mean that single family residential property located within the City of Banning that is actively marketed for sale, is vacant, and complies with the Program’s size and bedroom counts, among other criteria as may be set forth by the First Mortgage Lender or BHA.

Escrow – shall mean a neutral depository for documents and/or funds to be exchanged on performance of a condition or conditions as they pertain to the DAP.

Escrow Company – shall mean an independent third-party institution licensed by the State of California Department of Corporations to discharge escrow services including the accumulation and processing of appropriate documentation to effect the successful Close of Escrow, and the holding of the Good Faith

Deposit(s).

Escrow Officer – shall mean an employee or agent of the Escrow Company.

Extremely Low Income Household – shall mean a household whose income does not exceed the extremely low income limits applicable to Riverside County, adjusted for household size, as published by HCD pursuant to California Code of Regulations, Title 25, Section 6932, or successor provision.

Front end ratio – shall mean the affordable housing cost as defined by CCRL as a percentage of total household income.

Guidelines – Shall mean the totality of the BHA-DAP Guidelines, including all attachments, as they may be amended, supplemented, or modified from time to time.

HUD-1 – shall mean that document as mandated by the Real Estate Settlement Procedures Act (RESPA) that itemizes all charges imposed upon a buyer (borrower) and seller in a real estate transaction. Additionally, the HUD-1 shows the sources and uses of funds in the transaction.

First Time Home Buyer – as set forth by H&SC §50068.5 shall mean a person who is a purchaser of any owner-occupied housing unit and neither has, nor has had, a present ownership in a principal residence at any time during the previous three-year period.

First Mortgage Lender or “Lender” – shall mean those licensed and regulated lenders operating in the State of California that provide real estate purchase money loans and agree to, and act in compliance with the DAP.

First Mortgage Loan – shall mean that purchase money loan, secured by the QSFR provided by the First Mortgage Lender, subject to the terms and conditions of the underlying promissory note and deed of trust evidencing such financial obligation.

GAP Financing – shall mean that amount of secondary financing required to complete the purchase of a QSFR once the First Mortgage Loan and Qualified Borrower’s Down payment Contribution have been subtracted from the total financing necessary.

Good Faith Deposit (Deposit) – shall mean those funds tendered by an Applicant as an instrument to demonstrate to a seller a buyer’s good faith intention to pursue the purchase of the property in question, and subject to the terms of a purchase agreement, a payment of liquidated damages should the buyer default. Deposits are applicable to the purchase price of a property and accounted for in the final computation of closing costs due from a buyer.

Household – shall mean the person(s) legally occupying the Property who will be considered in the calculation of income to determine affordability and DAP eligibility.

Loan – shall mean a DAP Loan.

Loan Review Committee (LRC) – shall mean those BHA or City Staff members authorized to evaluate and make funding decisions pursuant to the DAP.

Long Term Affordability Covenant (Covenant) – shall mean the recorded legal instrument imposing certain income and occupancy restrictions for which failure to comply will result in a default of the DAP Deed of Trust. The DAP requires that a QSFR be occupied by individuals or families within stated income limitations set forth in these Guidelines.

Low Income Household – shall mean a household whose income does not exceed the lower income limits applicable to Riverside County, adjusted for household size, as published as published by HCD pursuant to California Code of Regulations, Title 25, Section 6932, or successor provision.

Low –Moderate Income Housing Fund (LMIHF) – shall mean those monies set aside by the BHA for the production, preservation, and rehabilitation of affordable housing units for persons of low to moderate

income.

Maximum Cash Reserve – shall mean that amount of cash resources of the Qualified Borrower(s) at Close of Escrow.

Program – shall mean the HHA-DAP which may be referred to as “DAP” or “Program” throughout these Guidelines.

Preliminary Title Report (PTR) – shall mean that report issued by a title insurance company, setting forth those recorded instruments and burdens on real property.

Property – shall mean a specific parcel of real property and all improvements thereto plus any appurtenances or fixtures that constitute the entire built environment of the real property identified in the Property's legal description.

Qualified Borrower – shall mean an Eligible Borrower(s) that has met all eligibility requirements of the First Mortgage Lender and BHA, including a pending RPA for an ESFD.

Qualified Single Family Residence (QSFR) – shall mean an ESFD that meets or exceeds the requirements of the First Mortgage Lender and the HHA including: (a) a Home Inspection resulting in a satisfactory finding, (b) has a FMV that equals or exceeds the purchase price set forth in the RPA, (c) Pest and Wood Destroying Pest Certification, (d) Septic System Inspection and Certification, and all other conditions of the HHA and/or Lender as they may change from time to time.

Qualifying Event (Acceleration Provision) – shall mean those actions caused either directly or indirectly by Qualified Borrower, or those circumstances that would cause the DAP loan to be accelerated and become due and payable in full.

Report – shall mean a Home Inspection Report prepared by a qualified property inspector.

Reservation – shall mean commitment by the BHA for a DAP Loan subject to the Program's terms and conditions and valid for a period of ninety (90) days.

Residential Purchase Agreement (RPA) – shall mean that legally binding written contract, regardless of form or originator that commits a buyer and seller to those obligations set forth therein.

Single Family Residence (SFR) – shall mean any Property that has been developed with one to four (1-4) residential units, with at least one of the units occupied by the Property Owner.

Surplus Funds – shall mean those funds deposited into Escrow and not required to consummate the Close of Escrow which shall be returned to the BHA to reduce the principal balance of the DAP Loan.

1. PURPOSE OF THE DOWN PAYMENT ASSISTANCE PROGRAM (DAP)

The Banning Housing Authority (BHA) has determined that the implementation of a First-Time Homebuyer Down Payment Assistance Program (DAP or Program) is an opportunity to assist eligible extremely low and low- income households (up to 80% of Median Family Income (MFI), adjusted for family size, to purchase a Qualified Single Family Residence (QSFR) within the City of Banning (City).

The DAP will fund a portion of the Qualified Borrower’s QSFR Purchase Price. Any Single Family Residence (SFR) that is purchased through the DAP must be affordable to persons of extremely low to low income and borrowers must meet all eligibility criteria as they may be amended from time to time.

The maximum DAP assistance per Qualified Borrower shall not exceed \$20,000 and constitute no more than 10% of the QSFR Purchase Price for extremely low, very low, and low income borrowers. The amount of the DAP Loan shall be established by applying underwriting standards and in compliance with thresholds set forth in California Health & Safety Codes and Regulations, and the DAP Program Guidelines. Such assistance shall be provided as “Gap Financing,” that is, an amount only necessary to complete the purchase transaction. In the event Surplus Funds exist at closing they shall be returned in their entirety to BHA to reduce the amount of the DAP loan.

DAP loans shall not accrue interest and are fully-deferred for thirty years (30) or until such time a Qualifying Event occurs which shall cause the principal balance of the DAP loan to become immediately due and payable. At the end of the thirtieth year (30th), the entire outstanding balance of the BHA DAP Promissory Note, as well as any other costs incurred by the BHA on behalf of the Qualified Borrower, shall become due and payable. In exchange for these attractive loan terms, the BHA requires recordation of Long-Term Affordability and Maintenance Covenants.

The BHA will require annual certification from the program participants that standard hazard insurance is maintained in a specified amount and that real property taxes levied against the QSFR are current.

2. DAP PROGRAM HIGHLIGHTS

A. Target Population

Prospective First Time Homebuyers must meet certain eligibility requirements. They must be considered Extremely Low, Very Low, or Low income as defined by California Health & Safety Code (HSC) § 50093; that is, the Eligible Borrower(s) must have a gross annual income (adjusted for household size) that does not exceed published income amounts by the California Department of Housing and Community Development (HCD). The BHA, in its sole and absolute discretion sets the annual appropriation for DAP loans. Notwithstanding the qualifying income thresholds, the BHA shall not be bound to provide DAP funding should the Purchase Price of a QSFR be such that traditional mortgage financing can effectuate the transaction. In other words, if an Applicant by providing the minimum Down payment Contribution (Section 2.F) can qualify for First Mortgage financing without the DAP assistance, there is no “Gap” and the BHA shall not be required to participate in the purchase transaction.

Category	Household Size (HH)							
	1	2	3	4	5	6	7	8
Extremely Low	\$14,150	\$16,460	\$20,780	\$25,100	\$29,420	\$33,740	\$38,060	\$42,380
Very Low	\$23,600	\$27,000	\$30,350	\$33,700	\$36,400	\$39,100	\$41,800	\$44,500
Low	\$37,750	\$43,150	\$48,550	\$53,900	\$58,250	\$62,550	\$66,850	\$71,150

Income Limits Effective April 26, 2018: California Department of Housing and Community Development

B. Selection of Applicants

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 Qualified Single Family Residence (QSFR) that can be assisted through the Program is \$405,950 (property value). This maximum property value, also referred to as the FHA 203(b) limit for Riverside County, and is subject to change periodically based upon the direction of HUD.

D. To participate in the DAP an Applicant must meet the following established “affordable housing cost” requirements (as defined by Health and Safety Code Section 50052.5).

Income Category	Affordable Housing Cost
Extremely Low Income Households (30% AMI)	The upward limit of 30% of the product of 30 percent of AMI adjusted for family size appropriate for the unit. Example (4 person HH) = 30% x \$25,100 = \$7,530/12 months = \$627.50 total monthly housing cost
Very Low Income Households (50% AMI)	The upward limit of 30% the product 50 percent of the AMI adjusted for family size appropriate for the unit. Example (4 person HH) = 30% x \$33,700 = \$10,110/12 months = \$824.50 total monthly housing cost
Low Income Households (80% AMI)	The upward limit of 30% of the product of 70 percent of the AMI adjusted for family size appropriate for the unit. Example (4 person HH) = 30% x \$53,900 = \$16,170/12 months = \$1,347.50 total monthly housing cost

E. Affordability Period

QSFR’s purchased using DAP funds must remain affordable for up to forty-five (45) years from the date of the Close of Escrow. A recorded Long-Term Affordability Covenant (Covenant) will be required as a condition of the DAP loan. DAP funds may be recaptured by the BHA under the conditions outlined in Section 13. Compliance with the DAP Loan eligibility requirements will be monitored by BHA staff and/or their designee. Non-compliance with DAP Loan guidelines, Covenant terms, maintenance standards, Deed of Trust, or other material default shall be grounds for immediate acceleration of the DAP Loan.

F. Down Payment Contribution (Contribution) by Applicant

To qualify for participation in the DAP, Applicants must have liquid (cash) assets to contribute towards the Purchase Price of the QSFR. The minimum amount for each income category is set forth in the table below. Some or all of the Down payment Contribution must be used by the Eligible Borrower(s) as the Good Faith Deposit (Deposit) when executing the Residential Purchase Agreement (RPA) as discussed in Section 4.A.6 of these Guidelines. Should the required Deposit be less than the minimum Eligible Borrower(s) Contribution, the balance of the Contribution shall be deposited into Escrow upon notification by First Mortgage Lender that the First Mortgage Loan has been approved. The balance of the Contribution shall be applied to the Qualified Borrower’s Closing Costs at Close of Escrow. In the event the Deposit and Closing Costs are less than the required Contribution the difference shall be utilized to reduce the principal amount of the BHA’s DAP loan.

Income Category	Minimum Down Payment Contribution (% of Purchase Price)
Extremely Low Income Households	1%
Very Low Income Households	2%
Lower Income Households	3%

The BHA, in its sole and absolute discretion retains the right to modify the amount of the Contribution from time to time as it deems appropriate to satisfy the goals and purpose of the DAP.

G. DAP Loan Repayment

Upon completion of the thirty year (30) term of the DAP Loan the entire outstanding balance shall become due and payable to BHA. The repayment of the DAP Loan shall not defeat the BHA's recorded Covenant, which was the basis for the BHA's funding.

3. PROGRAM OUTREACH AND MARKETING

All DAP outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach and access to the Program. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender or sexual orientation be excluded, denied benefits or subjected to discrimination under the Program. The BHA strives to ensure that all persons, including the qualified individuals with handicaps have access to the Program.

- A. The Fair Housing Lender logo will be placed on all outreach materials. Fair housing marketing actions will be based upon a characteristic analysis comparison, using census or other data, of the Program's eligible area compared to the ethnicity of the population served by the Program, including, separately, all applications given out and those receiving assistance, and an explanation of any underserved segments of the population. Additionally, persons who have participated in local homebuyer seminars will be notified about the Program.
- B. The BHA and its consultants will work closely with local real estate agents and primary lenders to explain the Program requirements for eligible housing units and homebuyers, and to review Program processes. Local real estate agents, mortgage brokers, and lenders will be encouraged to have their customers participate in the Program.
- C. Whereas Section 504 of the Rehabilitation Act of 1973 prohibits the exclusion of an otherwise qualified individual, solely by reason of disability, from participation under any program receiving Federal funds, the BHA, or its consultant, will take appropriate steps to ensure effective communication with disabled housing applicants, residents and members of the public.
- D. The BHA may advertise the availability of DAP funds as follows:
 - 1. Public Notice
 - 2. Press Release
 - 3. Notification to the appropriate Board of Realtors
 - 4. Mailings and communicates with local lending institutions and mortgage broker
 - 5. Direct Notice to Non-profit entities and other Community Service Providers

The DAP notices shall contain the following information:

- 1. Purpose of the program
- 2. Terms of financial assistance
- 3. Eligibility criteria
- 4. Income information
- 5. Identification of under-served populations requesting members of identified groups to apply

4. DOWN PAYMENT ASSISTANCE PROGRAM (DAP) APPLICATION PROCEDURES

The DAP is designed to be used in conjunction with normal mortgage loan application procedures. The processing procedures do not require extensive paperwork and complement processing procedures that are in place at most mortgage lending institutions.

The following outline sets forth the general responsibilities, procedures, and sequence of events for the Program. It is expected that some phases will occur simultaneously, specifically discussions between the First Mortgage Lender (Lender) and BHA, however; it shall be the Applicant's sole responsibility to ensure compliance with all phases of the Program.

A. Mortgage Lender Phase (First Mortgage Pre-Approval)

1. Applicant selects Lender.
2. Lender provides Applicant with brochures and other materials which explain their mortgage programs and processes plus required consumer information.
3. Lender will secure releases and authorization from Applicant for the purpose of securing credit report(s), and allowing the sharing of Applicant's information between Lender and BHA.
4. The Lender must certify to the BHA that the Applicant has, or will complete, prior to DAP Application submittal, a minimum of four hours of education in a first time home buyer's training program.

Under Fannie Mae's Guidelines and to comply with BHA policy, a prospective homebuyer is required to attend a homebuyer's counseling session, as part of the approval process. The session will be provided either by the Lender or in cases where the Lender does not provide such counseling; the BHA will provide the Applicant and/or Lender with referrals to organizations that provide such services. The counseling sessions will present information on homeownership topics such as: *Preparing for Homeownership; Shopping for a Home; Obtaining a Mortgage; Closing, and; Life as a Homeowner* (for more information please see Section XI First Time Homebuyer Training Course).

5. Lender determines the appropriate First Time Homebuyer Program Loan limit and completes the Housing Affordability Worksheet (FTHB-1), in order that the Applicant understands the appropriate affordable housing cost (an allowance for utilities, property taxes and assessments, insurance and homeowner dues must be included in this calculation). The Lender will also reconcile the Applicant's income with DAP front/back end ratios and other eligibility criteria for the purpose of determining the supportable first mortgage payment.
6. Based upon the Lender's FTHB-1, Applicant may proceed with identifying an Eligible Single Family Dwelling (ESFD) to be financed with the Lender's First Mortgage and DAP funds subject to all Program Guidelines herein. Applicant is strongly encouraged to seek out a qualified licensed residential real estate professional to assist them. Local real estate professionals can provide information on active listings, show properties, write purchase contracts, and assist the Applicant through escrow.

Once an ESFD has been selected by Applicant, a real estate purchase agreement (RPA) can be executed between Applicant and Seller. **Applicant shall deposit required Good Faith Deposit (Deposit) into Escrow with RPA to initiate Escrow processing including the preparation of a Preliminary Title Report (PTR). Applicants should ensure that their Deposit is not more than their required down payment contribution (see Section 2.F). Example: Purchase Price = \$200,000 x 2% = \$4,000. Deposits are negotiable.**

Applicants shall use, to the extent possible, standardized real estate forms to facilitate the processing of the DAP Application. Most real estate professionals have access to said forms which are available in paper or electronic formats.

Important: RPAs are legally binding contracts between Buyer and Seller. Applicants may suffer financial loss if they default in performing the obligations of an RPA. Applicants are encouraged to make their RPA “contingent” upon (i) approval of financing (First Mortgage and DAP), (ii) appraised value is equal to or greater than purchase price; and (iii) inspections – home inspection, title, etc.

RPAs should require Sellers to pay for and provide to Applicant/Buyer a termite/wood destroying pest report plus set forth that Seller shall be responsible for correcting all Part I items in the report. Furthermore, the RPA should set forth the requirement that Seller cause and pay for the preparation of a septic system test which will include the pumping, testing and certification of system. Copies of the termite and septic system report shall be provided to BHA and Lender.

BHA **SHALL NOT** be liable for any financial loss suffered by Applicant in the performance of a real estate purchase contract.

Finally, Applicant should ensure that the escrow period set forth in the RPA allows adequate time for loan processing, typically *no less than sixty (60) days*.

7. Applicant submits real estate purchase contract to Lender and applies for a first mortgage on the ESFD.
8. Lender verifies that the Applicant's selected ESFD and the proposed mortgage transaction comply with the BHA DAP and restrictions on type, purchase price and other Program terms.
9. Once Lender is satisfied with the ESFD and the Applicant's creditworthiness, Lender shall instruct Applicant to order an Appraisal of the ESFD. Applicant will instruct Appraiser to provide copy of Appraisal Report to Lender and BHA. If the DAP loan is ultimately funded, the cost of the Appraisal will be counted towards the Down payment Contribution.
10. Lender shall review Escrow documents and evaluate PTR provided by selected Escrow Officer. Should Title Insurance Exceptions exist that cannot be resolved, the Lender will inform Applicant of inability to proceed with transaction and discontinue the lending process in its entirety. Lender will advise Applicant to proceed with canceling the RPA, terminating Escrow, and securing their Deposit.
11. As part of the mortgage application process, the Lender directs Applicant to sign the Application Affidavit (FTHB-3). This document serves as the application and contains all the certifications and affidavits required by the DAP regulations and requirements as follows:
 - (a) Certification that ESFD will be used as principal residence and that the participant must notify the BHA and the Lender when the home ceases being the principal residence of the DAP Applicant.
 - (b) Certification that Applicant has not had an ownership interest in a principal residence during preceding three year (3) period (See Section 5.A. for definition).
 - (c) Certification that the purchase price does not exceed purchase price limits.
 - (d) Certification that the mortgage loan does not relate to the acquisition or replacement of an existing mortgage.
 - (e) Certification that the loan applied for does not constitute a prohibited mortgage.
 - (f) Certification that the Applicant was not forced to apply through a specific lender.

- (g) Certification that Applicant's income does not exceed permitted income limits.
 - (h) Certification that the DAP loan cannot be transferred.
 - (i) Acknowledgment that any material misstatement or fraud is made under penalty of perjury.
12. Lender performs standard mortgage loan underwriting procedures, taking into consideration the effect of the DAP when determining the net amount of the monthly housing payment. Lender determines acceptability of the loan in accordance with applicable FNMA, FHIMC, FHA, VA, and/or private mortgage insurance standards and/or underwriting guidelines.
 13. Based upon the Lender's underwriting criteria, including the consideration of the BHA's DAP funding, a conditional approval of the First Mortgage is relayed to Applicant who shall then be designated, for purposes of this Program, a "Eligible Borrower." On the contrary, should the Applicant, the property in question, or other circumstances not warrant approval, the First Mortgage loan application will be denied by Lender. Lender will notify Applicant of the results in writing regardless of the results.
 14. Lender will provide to Eligible Borrower a mortgage "Pre-Approval" letter which shall set forth the conditions, if any, of the approval, and the terms of the proposed mortgage loan (payment, interest rate, principal balance, etc.) to enable the processing of a DAP application.
 15. Upon Lender's notification of Eligible Borrower of Pre-Approval of First Mortgage Loan Application Eligible Borrower shall deposit into Escrow the balance of the required Down payment Contribution.
Applicant will then proceed onto Phase 2, "BHA DAP Application Phase."

B. BHA DAP Application Phase

To initiate the DAP Application Phase, a valid Pre-Approval from a qualified First Mortgage lender must be submitted to BHA for review and approval. Once approved by the BHA DAP processing may commence.

1. Interested Eligible Borrower will contact the BHA to obtain a DAP application package which shall include various forms, the DAP Guidelines, and instructions for submittal.
2. Eligible Borrower will submit a completed DAP Application package to BHA for underwriting which shall contain at a minimum the following:
 - (a) DAP Application form
 - (b) Federal and State Income Tax Returns (preceding three (3) years)
 - (c) Verification of Income (three consecutive months of most recent pay stubs)
 - (d) Bank statements (3 consecutive months)
 - (e) Statistical form
 - (f) ESFD Purchase Contract (RPA) plus copies of Escrow documents and PTR
 - (g) Other documents as requested by BHA
3. The BHA shall date stamp each Application upon receipt.
 - (a) Applications deemed complete, will then be processed on a first-come, first-serve basis by BHA staff and/or its Consultant(s).
 - (b) Applications deemed incomplete shall be returned to the Eligible Borrower with an explanation regarding the reasons for an incomplete determination and instructions for re-submittal, if warranted.
 - (c) BHA staff and/or its Consultant shall review each DAP Application noting conformance with the DAP program eligibility requirements. For each Eligible Borrower deemed qualified, BHA staff

and/or its Consultant shall obtain and review a credit report to determine the credit worthiness of each Eligible Borrower, and determine whether to recommend approval or denial of each Eligible Borrower, based on DAP Program guidelines and California Health & Safety Codes and Regulations to the BHA's Loan Review Committee (LRC).

- (d) All complete DAP Application packages (including recommendations from BHA staff and/or Consultant) will be presented to the LRC for loan approval or denial. All decisions of the LRC shall be final and not subject to appeal. Eligible Borrower will be notified in writing of the decision of the LRC. Written explanations will be provided by the BHA to any Eligible Borrower who is not approved for DAP funding. Applicant(s) who are approved by the LRC shall be deemed "(s)" Qualified Borrowers.
 - (e) Qualified Borrowers will be placed on the DAP waiting list. As funding is available, Qualified Borrowers will be released from the DAP waiting list based on the order of the date of their Application receipt and provided instructions on how to proceed with the "Commitment Phase."
4. BHA staff or its Consultant will prepare the DAP pre-approval ("Reservation") correspondence. This "Reservation" shall be valid for *ninety (90) days* commencing upon the date of the approval correspondence to Qualified Borrower. The BHA deems this a reasonable period of time that will enable an Qualified Borrower to complete the purchase of the ESFR set forth in their pending purchase contract.
 5. At any time during the process, should a Qualified Borrower or Applicant become ineligible according to the criteria set forth in the DAP, they shall be eliminated from the program and the next Qualified Borrower in priority shall be contacted.

Application approval is subject to funding availability and the determination of the BHA Board of Directors to continue the program.

C. DAP Commitment Phase

1. Lender prepares Initial Reservation Request (FTHB-2) and transmits to BHA for review and confirmation.
2. BHA reviews the FTHB-2 as submitted by the Lender, and if in order, completes the bottom portion of the Form and transmits same back to the Lender confirming a DAP Reservation for the Qualified Borrower and ESFD.
3. The BHA shall then retain the services of a house inspection firm to perform an inspection of the Property to determine its compliance with City health, safety, building, fire, electrical, and other codes and standards promulgated and enforced by the City or other regulatory agencies. The inspector shall also inspect the Property with respect to lead-based paint. The Home Inspection Report (Report) shall be submitted to both the Qualified Borrower and Lender. Any non-standard items noted on the Report will require repair/replacement prior to final approval and funding of the DAP loan for the Qualified Borrower. The Qualified Borrower shall submit a request for repair(s) to Seller of Property to correct the non-standard Report findings. The Seller's failure or refusal to repair non-standard Report findings shall result in the BHA's withdrawal of its DAP Reservation.

Once the ESFD meets the criteria set forth in Section VIII and is deemed acceptable to the BHA, in its sole discretion, the Property shall be classified as a Qualified Single Family Residence (QSFR). If not provided by ESFD Seller, BHA shall order a termite/wood destroying pest inspection and septic system test (which shall include the pumping, testing, and certification of septic system) on the QSFR. Like the home inspection, should there be significant issues affecting the Property, Qualified Borrower shall notify Seller and seek repairs of identified items needing attention. With respect to

termite/wood destroying pests, Seller shall be obligated to correct any Section I items.

The BHA shall be responsible for selecting and paying for the home inspection. If the DAP is approved that amount will be included in the final DAP loan. Should the DAP be denied, for whatever reason, the Qualified Borrower shall not be obligated to reimburse BHA for the costs of the home inspection, termite report, and septic system test (if necessary).

4. After the DAP Reservation has been confirmed by the BHA, the Lender may proceed to the Final Approval Phase.
5. During the commitment phase, Lender must immediately notify the BHA in writing of cancellations of reservations or commitments. The reason for cancellation must be clearly stated.

D. Final Approval Phase

1. In conjunction with Lender's regular verification process and under the agreement with the BHA, the Lender performs a reasonable investigation to verify that all DAP requirements with respect to the borrower, the home, and the mortgage transaction have been satisfied. Lender may verify these facts in any reasonable, efficient manner, according to standard industry practices for processing mortgage loan applications.
2. Lender shall notify BHA that the Qualified Borrower's First Mortgage has received final approval by Lender. Lender submits a Final Commitment Package (FCP) to the BHA.

The final commitment package must contain the following documentation:

- (a) Affordability Worksheet (FTHB-1);
- (b) DAP Request for Funds (FTHB-2);
- (c) Application Affidavit (FTHB-3); and
- (d) Lender's Closing Certificate (FTHB-5); and
- (e) Lender's Credit Memo.

Additionally, Lender shall furnish the BHA a copy of: i) Purchase Contract; ii) approved Lender's loan agreement; and iii) estimated Close of Escrow date to enable BHA sufficient time to draw its documents for execution by the Qualified Borrower.

3. Upon receipt of the final approval package from the Lender, the BHA will confirm that the DAP Reservation remains effective and has not expired. If the reservation has expired, the Lender must request an extension for an additional (30) days.
4. The BHA reviews the DAP Final Approval package for completeness and determines whether all necessary documents are included and properly executed.
5. If the BHA determines the DAP Final Approval Package has been completed properly and that the Qualified Borrower(s), the home and the overall transaction are in compliance with Program provisions, the BHA will issue a DAP Final Approval Letter to the Lender stating that the Application is approved and indicating that the BHA is prepared to issue a DAP Loan upon confirmation of the mortgage closing, so long as there are no material changes from the time of this review. The BHA retains a complete copy of the Final Approval package. The BHA will process a check for the necessary DAP funds. The DAP check will be held by BHA or its designee until such time a demand has been issued by the Lender or Escrow Company to effectuate Close of Escrow.
6. Escrow Officer will prepare a HUD-1 for transaction setting for the sources and uses of funding for the acquisition of the QSFR by the Qualified Lender. BHA and Lender must approve the HUD-1 prior to proceeding to the "Closing Phase".

E. Closing Phase

1. The Lender confirms that the DAP Reservation is effective and has not expired.
2. Lender notifies the BHA of approval of the Qualified Borrower's First Mortgage loan application and forwards all loan documents to Escrow officer with instructions for closing the loan. Closing Affidavit (FTHB-4) is to be executed at Close of Escrow by the Qualified Borrower(s) and returned by the Escrow Officer to the Lender with final Escrow Closing Statements.
3. Upon First Mortgage Lender's notification to BHA of preparation of First Mortgage Loan documents the BHA shall cause the preparation of the DAP Second Mortgage loan documents.
4. The BHA will forward the DAP Second Mortgage loan documents including the Long-Term "Affordability Covenant: to Escrow for execution by Qualified Borrower.
5. The Escrow Officer will contact BHA to advise the DAP Second Mortgage loan documents have been executed by Qualified Borrower. BHA will then execute any DAP Second Mortgage loan or ancillary documents.
6. Escrow Officer shall notify Lender and BHA of full execution of First and Second Mortgage (DAP) loan documents and call for the funding of the loans by Lender and BHA. BHA and Lender shall transmit necessary funds to complete QSFR purchase and Close Escrow.
7. Escrow will record the First and Second Deeds of Trust in favor of the Lender and BHA respectively with the Riverside County Recorder's Office and shall provide proof of recordation. Escrow shall also cause the recordation of the BHA's Covenant on the Property as set forth in Section 2.E of these Guidelines.
8. At Close of Escrow, Lender forwards to the BHA documentation indicating that the First Mortgage loan has closed and the Deed of Trust has been recorded plus the following documents:
 - (a) Closing Affidavit (FTHB-4) signed by Qualified Borrower(s) at Close of Escrow.
 - (b) Lender's Closing Certificate (FTHB-5) certifying that there has been no material changes that would disqualify Qualified Borrower from DAP.
9. Escrow Officer will provide a copy of the final Escrow Settlement Statement to Lender, BHA, and Qualified Borrower.

5. **DAP APPLICANT ELIGIBILITY REQUIREMENTS**

The prospective program participant must be a household with one or more persons and meet the 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 BHA 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 own or owned, as a principal residence during the three-year period before the proposed purchase of a home with BHA 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 or moderate income as defined by the BHA; that is, the potential DAP Applicant(s) must have a gross annual income (adjusted for household size) that does not exceed 70% of the adjusted AMI as established by HUD for Riverside County and published by HCD.
 - C. Must occupy the QSFR as a **principal residence**. Temporary subleases are not allowed. Program participants' status as an owner-occupant of the home purchased with BHA assistance must be certified on an annual basis. The certification of principal residence will be verified by having the DAP recipient (homeowner) provide to the BHA a certificate of insurance naming the BHA as an "additional insured" and submitting an annual affidavit of occupancy.
 - D. Shall have sufficient resources (assets) to contribute to the purchase of an ESFD equal to at least 1% of the purchase price (extremely low income Applicants), 2% for very low income Applicants, and 3% for lower income Applicants as set forth in Section 2.F. of these Guidelines which shall be expended for the following costs associated with the purchase of the QSFR: (a) Good Faith Deposit for RPA, and (b) closing costs.
 1. 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.
 - (c) An Applicant's failure to disclose assets, whether intentional or not, shall result in immediate disqualification from consideration by BHA.
 2. At the close of escrow, household assets (called the "**Maximum Cash Reserve**") shall not exceed \$5,000 plus six months of housing expenses (*i.e., principal & interest + property taxes and assessment + insurance or homeowners association dues*), or a maximum of \$10,000, whichever is greater. ("Maximum Cash Reserve" is defined as the total remaining assets the homebuyer may keep at the close of escrow). This maximum cash reserve will only be allowed after the Applicant has contributed the down payment necessary to ensure that no portion of the BHA's assistance is unsecured.
 - E. Shall have sufficient income and credit worthiness to qualify for primary financing as defined by the selected Lender(s).
 1. Bankruptcy claims must have been *discharged* at least two (2) years prior to loan closing;
 2. No current collection accounts and/or *unexplained* charged off accounts; and
 3. Monthly expenses (*i.e., car loan payments, credit card payments, alimony, and child support*) must not exceed 20% of the gross household monthly income.
 4. No outstanding unpaid federal, state, or local income or property tax liens.
 5. No child support arrearage.

6. FHA guidelines shall be met with all FHA loans.

6. DETERMINATION OF HOUSEHOLD ANNUAL INCOME

All persons residing in the residence are considered household members for the purposes of income eligibility. The gross amount of income is calculated for all adult household members that are anticipated to be received during the immediately following 12-month period. All income of the household must be documented to the satisfaction of the Lender and BHA. "Stated Income" will not be considered. Household income will be verified by the Applicant's Federal and State Income Tax Returns. Any discrepancies must be reconciled to the satisfaction of Lender and HHA.

For the purpose of determining income under this program, the following requirements will apply:

A. Annual Income Inclusions

1. The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;
2. Net income from the 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 (except as provided in number 3 of Income Exclusions).
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 organizations or from persons not residing in the dwelling;
8. All regular pay, special day and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family or spouse (see section (B)(5)).

Where a family has net family assets in excess of \$5,000, income shall include the actual amount of income, if any, derived from all of the net family assets or 10 percent of the value of all such assets, whichever is greater. For purposes of this section, net family assets means value of equity in real property other than the household's full time residence, savings, stocks, bonds, and other forms of capital investment. The value of necessary items such as furniture and automobiles shall be excluded.

B. Annual Income Exclusions

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.

7. DAP LENDER RESPONSIBILITY

Lenders wishing to participate with the BHA and its DAP must adhere to these Guidelines and all other program rules and regulations as promulgated by the BHA as they may be amended from time to time. The BHA reserves the right to change these Guidelines as it sees fit without involvement of others and at its sole discretion. Should the BHA modify these Guidelines, Lenders will be notified of said changes. These Guidelines are not intended to be "all-inclusive" and all participating Lenders shall adhere to rules and regulations set forth by federal, state, and local banking regulatory agencies. Participating Lenders shall also discharge their underwriting practices with reasonable care and all due vigilance in qualifying Applicants for a First Mortgage. Participating Lenders will be required to indemnify the BHA from any and all claims.

Notwithstanding the foregoing, Participating Lenders shall be obligated to faithfully discharge the requirements set forth in (i) Section 4.A, "Lender Phase;" (ii) Section 4.C, "DAP Commitment Phase;" (iii) Section 4.D, "Final Approval Phase;" and (iv) Section 4.E, "Closing Phase."

Participating Lender(s) shall:

- A. Perform all First Mortgage underwriting processes for the Applicant including the consideration of DAP eligibility criteria to ensure that an Applicant receives fair and just treatment and to avoid unnecessary loan processing should the Applicant not qualify for a First Mortgage or DAP assistance.
- B. Be responsible for the warrant of the BHA's Down Payment Assistance Program loan documents (Promissory Note and Subordinate Deed of Trust).
- C. Inform the BHA and Applicant regarding the Applicant's ability to borrow funds for the First Mortgage Loan which must be documented in writing initially as "Pre-Approval" during Lender Phase, and "Final Commitment Package" during Final Approval Phase.
- D. Endeavor to minimize the BHA's DAP Second Mortgage by maximizing the Lender's First Mortgage subject to the Front and Back End Ratio set forth later in this Section. Lender is to be advised that the Front End ratios have been set pursuant to California Community Redevelopment Law and cannot be exceeded regardless of the Applicant's circumstances.

Originate a **thirty (30) year, fixed-rate**, fully amortized-level payment mortgage, without prepayment or other penalties and other such terms, if any.

E. Cause through its loan servicing obligations the impounding of funds necessary to make the required property tax and fire insurance payments when due. Lender shall instruct Escrow Officer to collect no less than four months of projected property taxes at time of Closing. Escrow shall, during the course of Close of Escrow pre-pay to the fire insurance carrier (selected by Qualified Borrower) the first year premium and collect adequate funds to establish the impound account for fire insurance for Property.

F. Front and Back-End ratios

Income Category	Front End Ratio = (Total Monthly Housing Expenses as a % of Gross Monthly Household Income)*	Back End Ratio = (Total Monthly Debt Expenses as a % of Gross Monthly Household Income)
Very Low Income Households	30%	45%
Lower Income Households	30%	43%

* Must include expenses for property taxes, insurance, utility allowance, and HOA dues, if any.

Evaluate the Front and Back-End ratios of Applicants and Eligible Borrowers and ascertain compliance with the maximums set forth herein.

In the event the Eligible Borrower(s) Front and Back end ratios are higher than those set forth in the table above, the Eligible Borrower shall submit final loan approval documentation from First Mortgage Lender for waiver consideration by BHA. The BHA’s LRC will consider all cases where ratios for the Qualified Borrower exceed these stated limitations, if the Eligible Borrower can present the LRC with a First Mortgage Lender approval commitment letter containing: the sales price limit, specific interest rate and terms, and the estimated monthly payment (PITI).

Allowable compensating factors for ratio calculations, subject to BHA review and approval, include:

1. The Eligible Borrower has successfully demonstrated over a minimum of 12 months period the ability to pay housing costs equal to or greater than the proposed housing costs for the property being purchased;
2. The Eligible Borrower is a limited credit card user and they show history of being able to save money;
3. The Eligible Borrower has substantial non-taxable income such as: child support, disability payments, retirement payments, workers compensation benefits, social security, which are to continue, and be “grossed-up”;
4. Previous credit history shows that the Eligible Borrower has the ability to devote a greater portion of income to housing expense. (**NOTE: FHA guidelines shall be met for all FHA financing.**)

G. Ensure all DAP loan funds are fully-secured as a second deed of trust, including any funds used for Closing Costs. Under no circumstances shall the combined loan-to-value (“CLTV”), exceed **99%** of the current appraised value, *unless the closing costs are to be paid by the BHA*. The BHA will only consider a CLTV exceeding 99% for a Qualified Borrower that is classified as Extremely Low or Very Low Income.

H. NOT utilize REBATE PRICING or DISCOUNT POINTS to lower the interest rate.

I. NOT object to the BHA’s recordation of a Long-Term Affordability Covenant (Covenant), Deed restriction(s), and Equity Sharing.

J. NOT pursue any foreclosure proceedings against DAP recipient until BHA has been notified in writing and has the opportunity to assist in the resolution of the Default.

K. Allow BHA the first right of refusal to purchase QSFR from DAP recipient should the Default be unable to cure. If the BHA declines to purchase QSFR, Lender shall have the right to take whatever legal steps necessary, including foreclosure, to collect the outstanding balance of the First Mortgage.

8. PROPERTY ELIGIBILITY REQUIREMENTS

Upon Lender approval, the Applicant will identify an Eligible Single Family Dwelling (ESFD) unit that is for sale which shall meet all of the criteria listed in this Section now and as they may be amended from time to time by BHA. Upon BHA's approval of ESFD, the designation shall be revised to "Qualified Single Family Residence" (QSFR).

A. Definition and Location

An Eligible Borrower may select from any residential property within the City (including pre-1978 construction). All homes purchased with DAP funds must be single family, attached or detached residences, located within the corporate limits of the City, and designated for residential use under the Banning General Plan.

B. Property Evaluation

To be considered a QSFR, all properties shall be subject to a Home Inspection, Termite/Pest Report, and Septic System Test, (if applicable). BHA retains the sole right to reject a property should issues or findings of aforementioned reports and tests suggest that it is unsuitable for the DAP. ESFD shall have the opportunity to correct any property deficiencies for the purposes of BHA to re-evaluate its eligibility.

C. DAP program participants must select properties that are VACANT.

1. Homes that are currently occupied by TENANTS WILL NOT be eligible for the DAP. For the purposes of the DAP, a dwelling unit is considered tenant-occupied unless it has been vacant for a minimum of three (3) months prior to the date of the RPA.
2. The BHA and City strive to provide safe, sanitary, and decent housing with a minimum of disruption to residents and tenants within properties.

D. Lead-Based Paint Requirement

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* BHA 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.

The BHA will, at its expense, test units constructed before 1978 for the presence of lead based paint utilizing a licensed third party vendor. Any lead-based paint 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 DAP funds until such time as the deficiencies are corrected. **No BHA DAP funds shall be provided to acquire a substandard property.**

E. Health & Safety and Local Building Code Compliance

At the time of occupancy, the property must comply with City health, safety, and building codes and must be free from any defects that pose a danger to the health and safety of the occupants. The following steps must be taken for a housing unit to be eligible for purchase with BHA funds:

1. After execution of the RPA, and to be classified as QSFR, the candidate property must be inspected for compliance with City codes and regulations. The ESFD will undergo a customary home inspection of which the final reported will be provided to the BHA for review and approval. All code-related repair items must be rectified by Seller in order for ESFD to be classified as QSFR and eligible for DAP funding.

In addition, the Qualified Borrower must agree to maintain the property for the duration of the DAP loan in such a manner that the property meets minimum property standards as determined by the City's local Building and Zoning Codes. This requirement will be memorialized in a Maintenance Covenant which shall be executed by Qualified Borrower(s) prior to Close of Escrow, and shall be recorded simultaneously with the Long-Term Affordability Covenant.

2. If the ESFD unit was constructed prior to 1978, the lead-based paint requirements in Section VIII.D must be followed.
3. A clear Pest Inspection Report will be required for QSFR. Smoke detectors must be installed prior to Close of Escrow if none are in place which shall be at Seller's expense.
4. Upon completion of all work required by as a result of the Home Inspection, Pest Report, etc., a final inspection will be conducted prior to Close of Escrow. BHA and/or its Consultant must acknowledge and approve all required construction work was completed satisfactorily and in workmanlike fashion thereby assuring that each QSFR receiving DAP assistance is in compliance with local codes and health and safety requirements prior to the Close of Escrow.

F. Flood Insurance Requirement

Housing units located within a 100-year flood zone will be required to provide proof of flood insurance in order to Close Escrow.

G. Home Warranty Policy

As a condition of the DAP Loan the BHA requires that the Qualified Borrower(s) purchase a Home Warranty Policy for the first year of occupancy of QSFR. The cost of the Home Warranty Policy may be included in the BHA's Second Mortgage or the Qualified Borrower may pay for the expense as a portion of the Down payment Contribution.

H. Affordability

The selected home must be considered "affordable" according to the criteria stated in Section VB (and as defined in Definitions section) of these Guidelines. In calculating affordable 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. Reasonable utility allowance (25 CFR Section 6920)
4. Fire and casualty insurance covering the replacement value; and
5. Homeowner association fees, if any.

I. Property Acquisition

An Eligible Borrower may retain a real estate agent for the purpose of locating and preparing a RPA for the acquisition of the ESFD or may negotiate directly with the Seller (although this practice is discouraged). The selection of Escrow and Title Companies will be negotiated between the Seller and Eligible Borrower.

9. CALCULATION OF SUBSIDY

This subsidy shall be provided as a 30-year, zero interest deferred loan (silent second), due and payable upon sale, transfer, refinance, or violation of the affordable housing or maintenance covenants (Acceleration Provisions). Should the DAP Loan mature pursuant to the terms of the Prommissory Note the amount due BHA shall be the entire principal balance and any other costs incurred by BHA on behalf of the Qualified Borrower over the course of the DAP Loan. Such occurrences could be the BHA's curing a default on the First Mortgage to preserve its collateral position.

The subsidy shall not exceed the lower of \$20,000 per household or 10% of the purchase price of the QSFR.

A. For BHA DAP assistance: The BHA and/or its Consultant shall review all file documents and determine the amount of down payment assistance funding that is necessary to complete the purchase transaction (GAP financing) taking into consideration Lender participation. A “Gap” analysis shall be determined by the following method:

1. Establish sales price
2. Subtract First Mortgage loan amount made by primary lender
3. Subtract Buyer funds
4. Calculate BHA DAP loan amount

Notwithstanding the “Gap” analysis, at no time shall the BHA’s DAP Loan exceed the limits set forth herein.

B. For BHA payment of Closing Costs: The BHA loan may pay for Closing Costs, if the BHA’s loan has not been maximized for down payment assistance (see above). Determination of the Closing Costs will be based on the following:

1. Borrower’s required Down payment Contribution
2. Borrower’s amount of assets [see Section 4]
3. Seller’s contribution to payment of Qualified Borrower’s Closing Costs

10. FIRST-TIME HOMEBUYER TRAINING COURSE

The DAP requires that all pre-approved applicants attend a first-time homebuyer-training seminar regarding home ownership topics through 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 and 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, and basic steps for setting a household budget.

11. CLOSING/FUNDING REQUIREMENTS

A. Escrow Officer identified in the RPA shall cause the preparation of all Escrow documents customary in real estate transactions in Southern California and pursuant to the regulations promulgated by the California Department of Corporations or Department of Insurance, whichever is applicable to the selected Escrow Company.

Escrow Officer shall also:

1. Order payoff demands (should the QSFR have existing mortgage(s));
2. Secure title insurance quotes;
3. Ensure Qualified Borrower has deposited the entirety of Down payment Contribution; and

4. Perform any other functions necessary as set forth in the RPA.

B. Lender Package

The selected Lender shall contact the BHA and/or its Consultant with the necessary information to complete the transaction. Information shall include the following:

1. First Mortgage Lenders "Copy Package" including the appraisal report.
2. The BHA's First-Time Homebuyers "Lender Certification Form" showing: (1) the requested DAP 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 – HUD-1

C. The selected Lender shall prepare all necessary Lender loan documentation and submit to the Escrow Officer to allow for Close of Escrow.

D. Upon request by the Escrow Officer, the BHA and/or its Consultant shall prepare the necessary DAP loan documents and submit them to the Escrow Officer to allow for Close of Escrow. Said documents shall include but not be limited to:

1. Subordinate Deed of Trust;
2. Promissory Note;
3. Disclosure Statement,
4. Long-Term Affordability Covenant;
5. Property Maintenance Covenant; and any others deemed necessary by the HHA in its sole and absolute discretion.

E. BHA and Lender shall deposit into Escrow "Good Funds" once all closing conditions have been satisfied. Lender and BHA shall only be required to tender the approved amounts as set forth in their individual commitment documents.

F. Escrow Officer shall coordinate the execution of the BHA's DAP loan documents. Thereafter, the Escrow Officer shall record the BHA's Deed of Trust with the Riverside County Recorder's Office.

G. Escrow shall payoff any existing mortgage(s) on the QSFR and pay other expenses as set forth in the RPA. Escrow will make tax pro-rations and allocate costs amongst Qualified Borrower and Seller as set forth in the RPA.

H. Escrow Officer shall prepare and distribute to BHA, Lender and Qualified Borrower the Final Closing Statement (HUD-1).

12. DAP LOAN SERVICING

BHA shall be responsible for servicing the DAP loan. The BHA reserves the right to contract for these services to a third-party provider in its sole and absolute discretion. No less than annually BHA, or its contractor, shall be provided by Qualified Borrower (DAP Loan recipient) the following:

- A. Certificate of Insurance showing the QSFR has adequate casualty and fire coverage's to protect the BHA's investment with the BHA being listed on the policy as an "Additional Insured;"
- B. Certification of Residency; and
- C. Other documents as may become necessary from time to time to ensure compliance with the DAP Guidelines, CCRL, recorded Affordability and Maintenance Covenants.

The Qualified Borrower, by accepting a DAP Loan from BHA, acknowledges and authorizes BHA or its contractors to obtain such third-party information including credit report(s) necessary to validate compliance with the DAP and its various instruments and provisions.

13. SATISFACTION OF DAP/RECAPTURE PROVISIONS

- A. DAP loans use the “recapture method” outlined in paragraphs A through C below. Recapture of the DAP loan amount is due upon:
1. Any disposition of the QSFR whatsoever. Disposition shall mean any sale, transfer, assignment, or conveyance of the QSFR, any portion thereof or interest therein, including without limitation, any lease, exchange, or other disposition of any interest in the QSFR, whether voluntary or involuntary, excepting any transfer to a surviving spouse or joint tenant, so long as the surviving party meets that income eligibility requirements set forth herein.
 2. When the property ceases to be used as the **primary residence of the Qualified Borrower**. Residency requirements shall be re-certified on an annual basis. The certification of principal residence will be verified by having the homeowner provide to the BHA a certificate of insurance naming the BHA as an additional insured and submitting an annual affidavit of occupancy.
 3. Any refinancing of principal balance of the First Mortgage (secured by the first trust deed on the QSFR).
 4. Failure to comply with any of the provisions of the recorded Covenant and Maintenance Agreement.
 5. Any default of the recorded Deed of Trust by Qualified Borrower over the term of the DAP Loan.
- B. Refinance of any outstanding First Mortgage debt will be permitted only to reduce the overall housing costs of the Qualified Borrower (e.g., reduction of interest rate from 8% to 6.5%). All subordination requests will be reviewed on a case-by-case basis by BHA staff, and subject to a processing fee of \$395. Refinancing terms cannot be extended past the original term, not to exceed thirty years.
- C. Affordability restrictions shall remain in force for a period of forty-five (45) years, regardless of the outstanding or paid status of the DAP loan. Should a homeowner wish to pre-pay the DAP, the Qualified Borrower remains bound to performance of the requirements of the Affordability Covenant and Maintenance Agreement.

14. DEFAULT/FORECLOSURE/DISQUALIFICATION

- A. 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 DAP, or in failing to complete certifications, affidavits or re-certification documents regardless of when it occurred.
- B. A Lender Foreclosure proceeding will cause the DAP loan to become due and payable, subject to the priority of any senior mortgages secured by the QSFR.

15. APPEAL PROCESS

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

decision of the City Manager shall be final.

16. NON-DISCRIMINATION POLICY

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

17. DISCLAIMER

This application package is an important legal document, and in all respects has been voluntarily and knowingly executed by the Applicant(s). The Applicant(s) hereby acknowledge that he/she/they: (i) have read, in its entirety this application package, including any and all attachments hereto; (ii) understand the respective contents and requirements of each document, (iii) sought legal advice, if desired, concerning the legal effect of this application package and the program; (iv) shall indemnify and hold harmless the City of Banning and Banning Housing Authority (BHA) (including its employees, representatives, agents, or officials) from any claims, actions, suits, or litigation, whether monetary or otherwise, that may be asserted by the Applicant(s) or any third party person, firm, or entity arising from the 's performance of the City or BHA in considering/approving the application; and (v) without reservation agree to be bound by all the terms, requirements and obligations of this application package and the program.