



Homeownership Program Guidelines

Including:

First Time Homebuyer

Moderate Income Assistance

Manufactured Housing Program

Community Land Trust



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Authorized by: _____

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Michael Hackett, City Manager

HOMEBUYER PROGRAM GUIDELINES

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City of Arcata
FIRST TIME HOMEBUYER PROGRAM GUIDELINES

1.0 GENERAL

The City of Arcata, hereinafter referred to as the City, has entered into a contractual relationship with the California Department of Housing and Community Development (“HCD”) to administer one or more HCD-funded homebuyer programs. The homebuyer program described herein (the “Program”) is designed to provide assistance to eligible homebuyers in purchasing homes, also referred to herein as “housing units,” located within the Program’s eligible area, as described in Section 3.1. The Program provides this assistance in the form of deferred payment “silent” second priority loans as “Gap” financing toward the purchase price and closing costs of affordable housing units that will be occupied by the homebuyers. The Program will be administered by the City of Arcata.

The City Manager has the authority to interpret any provision of these First Time Homebuyer Guidelines. Whenever the City Manager determines that the meaning or applicability of any guideline is subject to interpretation, the City Manager may issue an official interpretation in the form of a management memorandum. The Program Operator may develop “handouts.” Handouts will generally be used to clarify specific guidelines, to make the program more user-friendly, and to produce documents for educational purposes.

1.1 PROGRAM OUTREACH AND MARKETING

All 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 nor subjected to discrimination under the Program. The City will ensure that all persons, including those 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 (census data may be used) of the Program’s eligible area compared to the ethnicity of the population served by the Program and an explanation of any underserved segments of the population. Demographic data will also be gathered and maintained on the population of applicants not receiving assistance. This information will be used to show that protected classes (age, gender, ethnicity, race, and disability) are not being excluded from the Program. (For HOME funded projects, the City shall develop a Fair Housing Marketing Plan prior to project set up.) Flyers or other outreach materials, in English and any other language that is the primary language of a significant portion of the area residents, will be widely distributed in the Program-eligible area and will be provided to any local social service agencies. The Program may hold City homebuyer classes to help educate homebuyers about the home buying process and future

responsibilities. Persons who have participated in local homebuyer seminars will be notified about the Program.

- B. The Program Operator will work closely with local real estate agents and primary lenders to review Program processes and to explain Program eligibility requirements for housing units and homebuyers to applicants. Local real estate agents and primary lenders will also be encouraged to have their customers participate in the Program.
- C. 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 City should take appropriate steps to ensure effective communication with disabled housing applicants, residents and members of the public.

1.2 APPLICATION PROCESS AND SELECTION

- A. The priority of applications will be on a “first come-first served” basis which shall be based on the date that a complete application is turned into the City. Each applicant is asked to complete an application form, which asks for sufficient information concerning income, employment, and credit history to establish preliminary eligibility for Program participation. Complete applications are date and time stamped; therefore, assistance is given on a first-come-first-served basis. Incomplete applications, as defined in handouts, are returned to the applicant and will not be date/time stamped until completed.
- B. Eligible applicants will receive the following forms: Program Brochure, Instructions to Home Buyer, List of Participating Lenders, Sellers Lead-Based Paint (LBP) Disclosure, LBP Contract Contingency Language and the EPA Booklet (Protect Your Family from Lead in Your Home), and Notice to Seller. The City will also give eligible applicants a preliminary eligibility letter. Applicants are encouraged to present the Certificate of Participant Status to their Realtor and Private Lender as evidence of the applicant eligibility in the City’s 1st Time Homebuyer Program. Income qualified applicants that receive a preliminary eligibility letter from the City will be on equal status with each other.
- C. After applicant obtains an executed purchase contract, the City will reevaluate the applicant for program compliance. The City will give compliant applicants a commitment of program funds letter if funds are available. Commitment of funds will be done on a first-come-first-served basis.

1.3 THE HOME PURCHASE PROCESS

- A. The City shall present a handout and slideshow describing the home purchase process to qualified applicants. These presentations will include the method a primary lender may use to analyze a homebuyer’s finances to determine how much the homebuyer could afford to borrow.
- B. Prior to making an offer to purchase an eligible housing unit (see Section 3.0), the homebuyer shall provide the seller handouts, which disclose the following provisions designed to comply with the HCD funding program:
 - 1. Homebuyer has no power of eminent domain and, therefore, will not acquire the property if negotiations fail to result in an amicable agreement;

2. Homebuyer's offer is an estimate of the fair market value of the housing unit, to be finally determined by a state licensed appraiser;
3. The housing unit will be subject to inspection. Note: For CDBG local health and safety standards and for HOME the housing unit must comply with local codes at the time of construction. CalHome has not established conditions of housing units that are to be purchased but has elected to leave this requirement to the City.
4. All housing units built prior to January 1, 1978 will require a lead paint disclosure to be signed by both the homebuyer and seller (Attachment B);
5. Since the purchase would be voluntary, the seller would not be eligible for relocation payments or other relocation assistance;
6. The seller understands that the housing unit must be either: currently owner-occupied, newly constructed, a renter purchasing the unit, or vacant for four months prior to submission of the purchase offer.

If the seller is not provided with a statement of the above six provisions prior to the purchase offer, the seller may withdraw from the agreement after this information is provided.

- C. The applicant shall submit executed standard form purchase and sale agreement and primary lender prequalification letter to the Program Operator. The purchase and sale agreement will be contingent on the household and housing unit meeting Program eligibility requirements and receiving Program loan approval. The Program Operator will verify applicant eligibility, housing unit and loan eligibility, and amount of assistance to be provided consistent with these guidelines.
- D. Any work to be completed after purchase will be undertaken through the Program's housing rehabilitation program. Note: For HOME the housing unit must meet code no later than two years after transfer and be free from health and safety defects prior to initial occupancy. CalHome funds shall only be used for permanent gap financing for a housing unit ready for occupancy with the exception of primary loan obtained through HUD or USDA, which addresses rehabilitation of the housing unit.
- E. The Program Operator shall draft a Loan Advisory Committee report with a recommendation and supporting details. This report shall be submitted to the City's Loan Advisory Committee, which will decide to approve or deny the Application and instruct the Program Operator to notify the Applicant. The Program Operator will provide written notification to the Applicant of approval or denial with reason and, if denied, a copy of the Program's appeal procedures.
- F. When City and Primary Lender requirements are met, Program funds shall be deposited into escrow, and the homebuyer will be provided with required closing instructions and loan documents.
- G. At the time of escrow closing, the City shall be named as an additional loss payee on fire, flood, if required, and extended coverage insurance for the length of the loan and in an amount sufficient to cover all encumbrances or full replacement cost of the housing unit.

1.4 HOMEBUYER COSTS

- A. Eligible households must document that they have the funds necessary for down payment and closing costs as required by the Primary Lender and the City. The Program's down payment requirement (below) is in place even if the Primary Lender has a lower down payment requirement.
- B. Homebuyer funds shall be used in the following order:
 - 1. Down payment - Minimum Requirement: \$500.00, but the City recommends 3% of the purchase price.
 - 2. To the extent possible, after satisfying 1) above, appraisal fee, cost of credit report, the loan origination fee, discount points, customary homebuyer closing costs, homebuyer's customary portion of the escrow fees, title insurance, and the establishment of impound accounts for property taxes and insurance.
 - 3. After 1) and 2) above are satisfied, any balance of homebuyer funds may be applied either to the purchase price or to reduce the interest rate of the primary loan as necessary.
- C. If the items in B.2), above cannot be satisfied with homebuyer funds, the City may provide Program loan assistance to cover the remaining balance.
- D. The City may not provide more than 50 percent of the down payment required by the primary lender (*CDBG requirement*). The City may also provide sufficient assistance as Program loan principal to reduce the monthly payments for PITI (Principle, Interest, Taxes, & Insurance) to an affordable level of household income. The subsidy will write down the cost of the primary lender's loan so that the payments of PITI are within approximately 30 to 35% of the gross household income. The Program Operator will determine the level of subsidy and affordability during underwriting of the Program's loan to make sure that it conforms to the requirements of the HCD funding Program.

1.5 HOMEBUYER EDUCATION

Buying a home can be one of the most confusing and complicated transactions anyone can make. Providing the future homebuyer with informative homebuyer education training can bring success to the City, Program Operator, the Program and most importantly, the homebuyer. It has been documented that first-time homebuyers that have had homebuyer education have the ability to handle problems that occur with homeownership. All Program participants are required to attend a City-approved homebuyer education class. The homebuyer education class may cover such topics as the following: preparing for homeownership, available financing, credit analysis, loan closing, homeownership responsibilities, home maintenance, share of equity, refinancing, and loan servicing.

1.6 CONFLICT OF INTEREST REQUIREMENTS

As per title 24, Section 570.611 of the Code of Federal Regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities (including members of the loan committee and officers, employees, agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the Program shall

directly or indirectly be eligible for this Program. This ineligibility shall continue for one year after an individual's relationship with the City. Exceptions to this policy can be made only after public disclosure and formal approval by the governing body of the locality.

1.7 NON-DISCRIMINATION REQUIREMENTS

The Program will be implemented in ways consistent with the City's commitment to non-discrimination. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity funded in whole or in part with State or Federal funds on the basis of his or her religion or religious affiliation, age, race, color, creed, gender, sexual orientation, marital status, familial status (children), physical or mental disability, national origin, or ancestry, or other arbitrary cause.

2.0 APPLICANT QUALIFICATIONS

2.1 CURRENT INCOME LIMITS FOR THE AREA, BY HOUSEHOLD SIZE

All applicants must certify that they meet the household income eligibility requirements for the applicable HCD program(s) and have their household income documented. The income limits in place at the time of loan approval will apply when determining applicant income eligibility. All applicants must have incomes at or below 80% of the County's area median income (AMI), adjusted for household size, as published by HCD each year. Current limits are included as a handout to these Guidelines and are incorporated herein by reference. The link to the official, HCD-maintained, income limits is:

<http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html>

Household: means one or more persons who will occupy a housing unit.

Annual Income: Generally, the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period.

2.2 INCOME QUALIFICATION CRITERIA

Projected annual gross income of the applicant household will be used to determine whether they are above or below the published HCD income limits. Income qualification criteria, as listed in the most recent HCD program-specific guidance, will be followed to independently determine and certify the household's annual gross income. The Program Operator should compare this annual gross income to the income the Primary Lender used when qualifying the household. The Primary Lender is usually underwriting to FHA or conventional guidelines and may not calculate the household income or assets in the same way as required by the Program. The City will verify income by reviewing and documenting tax returns, copies of wage receipts, subsidy checks, bank statements and third party verification of employment forms sent to employers. All documentation shall be dated within six months prior to loan closing and kept in the applicant file and held in strict confidence.

A. HOUSEHOLD INCOME DEFINITION:

Household income is the annual gross income of all adult household members that is projected to be received during the coming 12-month period, and will be used to determine program eligibility. For those types of income counted, gross amounts (before any deductions have been taken) are used. Income of minors or live-in aides will not be used to calculate household income. Certain other

household members living apart from the household also require special consideration. The household's projected ability to pay will be used, rather than its past earnings, when calculating income. Annual Income Inclusions and Exclusions are outlined in 24 CFR Part 5 (Attachment A). The link to Annual Income Inclusions and Exclusions is:

<http://www.hud.gov/offices/cpd/affordablehousing/training/calculator/definitions/part5.cfm>

NOTE: Non-occupant co-signers will not be required to submit income and asset documentation. Co-signers income will not be included in the household income determination. Co-signers are acceptable as long as their names do not appear on the Grant Deed or Deed of Trust.

B. ASSETS:

There is no asset limitation for participation in the Program. Income from assets is, however, recognized as part of annual income under the Part 5 definition. An asset is a cash or non-cash item that can be converted to cash. The value of necessary items such as furniture and automobiles are not included. (*Note: it is the income earned – e.g., interest on a saving's account – not the asset value that is counted in annual income.*)

An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including: Penalties or fees for converting financial holdings and costs for selling real property. The cash value (rather than the market value) of an item is counted as an asset.

The Link to Asset Inclusions and Exclusions is:

<http://www.hud.gov/offices/cpd/affordablehousing/training/calculator/definitions/treatment/inclusions.cfm>

2.3 DEFINITION OF AN ELIGIBLE HOMEBUYER

An eligible homebuyer means an individual or individuals or an individual and his or her spouse who meets the income eligibility requirements and is/are not currently on title to real property. Persons who are planning to sell the unit as part of buying a home located on real property may be on title of a manufactured home unit. Documentation of homebuyer status will be required for all homebuyers. HOME- and CalHome-funded Programs are required to use the following definition of an eligible homebuyer, which is also the definition of a "first-time homebuyer" from 8201 (k) Title 25 California Code of Regulations:

- 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 subsidy 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, experienced 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 his or her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant; and
3. An individual or individuals who owns or owned, as a principal residence during the three-year period before the purchase of a home with assistance, a dwelling unit whose structure is:
 - a. Not permanently affixed to a permanent foundation in accordance with local or state regulations; 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.

3.0 HOUSING UNIT ELIGIBILITY

3.1 LOCATION AND CHARACTERISTICS

- A. All housing units must be located within the city limits of Arcata (Attachment E).
- B. Housing unit types eligible for the homebuyer Program are new or previously owned: single-family detached houses, half-plex, duplex, tri-plex or quad-plex houses, or condominiums. Manufactured homes purchased with Program funds must be new structures.
- C. All housing units must be in compliance with State and local codes and ordinances.
- D. Housing units located within a 100-year flood zone will be required to provide proof of flood insurance in order to close escrow.
- E. All housing units shall be fixed to a permanent foundation.

3.2 CONDITIONS

- A. Construction Inspection and Determining Need for Repairs.

Once the participating homebuyer has executed a purchase agreement for a housing unit not requiring participation in City's housing rehabilitation program, and prior to a commitment of Program funds, the following steps must be taken for the housing unit to be eligible for purchase under the Program:

1. The Program Operator's construction inspector will walk through the housing unit, determine if it is structurally sound, and identify any code related and health and safety deficiencies that need to be corrected. A list of code related repair items will be given to the homebuyers and their Realtor to be negotiated with the seller.

2. When the City's Program utilizes Federal funds and if the housing unit was constructed prior to 1978 then the lead-based paint requirements of Section 3.2.E will apply.
 3. A clear pest inspection report will be required for each housing unit. Smoke detectors must be installed per code requirements. The Program Operator will encourage each homebuyer to secure a homeowner's warranty policy as part of the purchase of a resale housing unit.
 4. Upon completion of all work required by the construction inspector, a final inspection will be conducted prior to close of escrow. The inspector will inspect and approve all required construction work assuring that each housing unit receiving Program assistance is in compliance with local codes and health and safety requirements at the time of purchase and prior to occupancy.
- B. If the assisted homebuyer is acquiring and rehabilitating a home with Program funds:
1. The housing unit must be free from any defects that pose a danger to the health and safety of occupants before occupancy (and for HOME-funded programs any deficiencies must be corrected not later than six months after the transfer is made to the owner). The construction inspector must inspect the housing unit again at project completion. The housing unit must meet written rehabilitation standards and local codes and ordinances at project completion (and for HOME within two years of property transfer to the owner).
 2. The City's Housing Rehabilitation Guidelines will be adhered to.
- C. Housing unit size shall be sufficient to meet the needs of the homebuyer household, without overcrowding. Generally, this means not more than two persons per bedroom or living room.
- D. **Lead Based Paint Hazards:** All housing units built prior to 1978 for which HOME or CDBG funding is anticipated are subject to the requirements of this section 3.2.E. Such homes must undergo a visual assessment by a person who has taken HUD's online Visual Assessment course. Deteriorated paint must be stabilized using work safe methods. Clearance must be obtained after paint stabilization by a DHS certified LBP Risk Assessor/Inspector. (Note: The City may choose to pick up the cost as an incentive to sellers who might not otherwise sell to a Program participant due to costs and potential delays due to dealing with lead-based paint requirements.) HOME and CDBG general administrative and activity delivery funds may be used to pay for lead-based paint visual assessments, and if lead mitigation and clearance costs are incurred, these programs may incorporate the costs into the calculation of Program assistance. ***(Note: the CDBG Program allows grants for lead hazard evaluation and reduction activities. The HOME Program allows grants for lead hazard evaluation and reduction activities only for acquisition with rehabilitation programs where the proposed paint stabilization measures do not add value to the home, and upon approval of revised regulations expected to be adopted in April 2004, HOME will also allow grants for lead hazard evaluation and reduction activities that do not add value to the home for acquisition-only programs.)***

The following requirements must be met:

1. **Notification:** a) Prior to homebuyer's obligation to purchase a pre-1978 home, the Buyer will be given a copy of and asked to read the EPA pamphlet "*Protect Your family From Lead in Your Home*". (EPA 747-K-94-001, **September 2001**) A signed receipt of the pamphlet will be kept in the City's homebuyer file; b) A notice to residents is required following a risk assessment/inspection using form DHS 8552, which is provided by the DHS-certified Risk Assessor/Inspector; c) A notice to residents is required following lead-based paint mitigation work using Visual Assessment and Lead-based Paint Notice of Presumption and Hazard Reduction form, LBP – 1 (Attachment C).
2. **Disclosure:** Prior to the homebuyer's obligation to purchase a pre-1978 housing unit, the HUD disclosure "Seller's Lead-based Paint Disclosure" notice (Attachment B), must be provided by the seller to the homebuyer.
3. **Inspections:** The Inspector shall conduct a "Visual Assessment" of all the dwelling unit's painted surfaces in order to identify deteriorated paint. All deteriorated paint will be stabilized in accordance with CFR 35.1330 (a) and (b), and a Clearance shall be made in accordance with CFR 35.1340.
4. **Mitigation:** If stabilization is required, the contractor performing the mitigation work must use appropriately trained workers. Prior to the contractor starting mitigation work the Program Operator shall obtain copies of the contractor's and workers' appropriate proof of LBP training, as applicable to the job, in order to assure that only qualified contractors and workers are allowed to perform the mitigation.
5. **Purchase Contract Contingency Language:** Before a homebuyer is obligated under any contract to purchase a pre-1978 housing unit, the seller shall permit the homebuyer a 10-day period (unless the parties mutually agree in writing upon a different period of time) to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards. (See Attachment D for sample lead-based paint contract contingency language).

A homebuyer may waive the opportunity to conduct the risk assessment or inspection by so indicating in writing, such as in Attachment B, item (e)(ii). In this case the purchase contract contingency language is not required.

- E. The Program Operator will: 1) confirm that the housing unit is within the eligible area, and 2) will review each proposed housing unit to ensure that it meets all eligibility criteria before funding.

3.3 ANTI-DISPLACEMENT POLICY AND RELOCATION ASSISTANCE

Eligible homes will be those that are currently owner occupied or have been vacant for four months prior to the acceptance of a contract to purchase. It is not anticipated that the implementation of the Program will result in the displacement of any persons, households, or families. However, if tenant occupied homes are included in the Program and relocation becomes necessary, the activity will be carried out in compliance with City's relocation plan. The relocation plan describes how persons permanently displaced will be relocated and paid benefits in accordance with the following Federal laws:

A. Uniform Relocation Assistance (URA) and Real Property Acquisition Policies Act of 1970

The federal URA and Real Property Acquisition Policies, as amended by the URA Amendments of 1987, contains requirements for carrying out real property acquisition or the displacement of a person, regardless of income status, for a project or program for which HUD financial assistance (including CDBG and HOME) is provided. Requirements governing real property acquisition are described in Chapter VIII. The implementing regulations, 49 CFR Part 24, require developers and owners to take certain steps in regard to tenants of housing to be acquired, rehabbed, or demolished. This regulation also covers tenants who will not be relocated.

B. Section 104(d) of the Housing and Community Development Act of 1974

Section 104 (d) requires each contractor (CHDO or State Recipient), as a condition of receiving assistance under HOME or CDBG, to certify that it is following a residential anti-displacement plan and relocation assistance plan. Section 104(d) also requires relocation benefits to be provided to low-income persons who are physically displaced or economically displaced as the result of a HOME or CDBG assisted project, and it requires the replacement of low-income housing that is demolished or converted. The implementing regulations for Section 104(d) can be found in 24 CFR Part 570(a).

3.4 PROPER NOTIFICATION AND DISCLOSURES

A. Upon selection of a housing unit, a qualified seller and homebuyer must be given the necessary disclosures for the Program. The homebuyer must have read and signed all Program disclosure forms. Any and all property disclosures must be reviewed and signed by the homebuyer and seller. (See Attachments B and D)

B. All owners who wish to sell their housing units must receive an acquisition notice (Attachment F) prior to submission of the homebuyer's original offer. This notice will be included in the contract and must be signed by all owners on title. The disclosure must contain the items listed in 1.3.B. (Required for federally funded Programs.)

4.0 PURCHASE PRICE LIMITS

A. Maximum Property Value

The maximum property value must meet the requirements under 24 CFR Section 92.254. The housing must be modest and the maximum property value after acquisition and or rehabilitation shall not exceed the higher of the following:

1. 95 percent of the median area purchase for Humboldt County.
2. 95 percent of the median purchase price for the City of Arcata, as approved by the State Department of Housing and Community Development (See handout). The City may request HCD to recalculate the City's 95% median sales price as may be required.
3. The maximum HOME Program Subsidy Limits Per Unit- Section 221(d)(3) for Humboldt County.

These guidelines for maximum property value are also listed in handouts, which are updated regularly.

B. Occupancy

The first time homebuyer shall certify that they will occupy the property as the primary residence of the family throughout the loan period. This restriction includes, but is not limited to, prohibition on renting or otherwise leasing all or a portion of the property even on a temporary basis. Periodically, at the request of the City, the homebuyer will be required to complete an occupancy certification. If after review of the occupancy certification it is determined that the property is no longer the first time homebuyer's principal residence, the City will issue a notice of ineligibility in the 1st time homebuyer program. Failure of the applicant to promptly make arrangements to come into compliance with the occupancy requirements shall constitute a breach of the agreement. Properties with 2nd units are not eligible for acquisition.

C. After Rehabilitation Value

The maximum after rehabilitation value shall not exceed the maximum property values listed in the handout "Maximum Purchase Price/After Rehabilitation Value Limits."

5.0 THE PRIMARY LOAN

Prior to obtaining a loan from the City, a homebuyer must provide evidence of financing for the maximum amount the Primary Lender is willing to loan (the "primary loan"). Prospective buyers are required to provide a loan commitment letter from a private lending agency of the applicant's choice. The monthly payments of the 1st mortgage must be not less than 25% of the applicant's gross monthly income. The primary loan shall be fully amortized and have a term "all due and payable" in no fewer than 30 years. There shall not be a balloon payment due before the maturity date of the Program loan. Each household will be required to have an impound account for the payment of taxes and insurance to ensure they remain current. No Private Mortgage Insurance (PMI) or Adjustable Rate Mortgages (ARM) are allowed.

5.1 QUALIFYING RATIOS

Primary loans underwritten by FHA, USDA Rural Development, Fannie Mae, Freddie Mac, or CalHFA will be acceptable to establish creditworthiness, repayment ability, and dependability of income.

The applicant must obtain a private loan and an Agency loan (see Section 6.0, Program and Agency Loans) secured by a first and second deed of trust, respectively, with monthly payments not less than 29% of the applicant's gross monthly income. The "front end" maximum monthly housing costs and other debt (1st and 2nd mortgage, insurance, taxes, and all other monthly housing debt) [PITI] shall not exceed 38% of the applicants gross monthly income. The "back end ratio" of total debt including PITI plus other monthly long-term debt payments, such as car, student, or other personal loans and credit card debt, shall not exceed 42%. The City Manager may adjust the "front end" and "back end" ratio by up to 5% to match a local Private lender's underwriting ratios on a case by case basis provided that the borrower has demonstrated that over a period of the last 12 months the ability to pay the housing costs and total debt equal to the proposed "front end" or "back end" ratio.

5.2 INTEREST RATE

The Primary Loan must be fully amortized and have a fixed interest rate within one percentage point of the current market rate, established by the 90-day “posted yield” for the thirty year fixed rate loans, as established by Fannie Mae at:

<http://www.efanniemae.com/syndicaed/documents/mbs/apeprices/archives/cur30.html>

plus 100 basis points. This means that loans that have an “interest only” period are not eligible, even if they convert to a fully-amortized loan at some point in the loan term.

The primary loan may not have an adjustable rate.

Note: for HOME-funded programs, the current market rate must be evidenced by the Effective Rate plus 50 basis points listed in the Federal Housing Finance Board’s most recent Monthly Interest Rate Survey for the San Francisco District and no temporary interest rate buy-downs are permitted.

5.3 LOAN TERM

The primary loan shall be fully amortized and have a term “all due and payable” in no fewer than 30 years. There shall not be a balloon payment due before the maturity date of the Program loan.

A shorter term for loans to purchase manufactured homes not on permanent foundations may be authorized by the City Manager after consultation with HCD.

5.4 IMPOUND ACCOUNT

All households will be required to have impound accounts for the payment of taxes and insurance to ensure they remain current.

6.0 THE PROGRAM AND AGENCY LOANS

6.1 MAXIMUM AMOUNT OF ASSISTANCE

The amount of Program and Agency assistance to a homebuyer toward purchase of a home shall not exceed \$105,000. Any approved “grant” amount for lead-based paint evaluation and reduction activities or for closing costs shall be included in this amount. The maximum subsidy limit shall be the HOME Program Subsidy Limits per Unit – Section 221(d)(3) for Humboldt County (HOME Subsidy Limits Handout).

6.2 NON-RECURRING COSTS

Non-recurring costs such as fees associated with credit reports, escrow, closing and recording fees, title report, title insurance, and title updates and/or related costs may be included in the Program loan.

6.3 AFFORDABILITY PARAMETERS FOR BUYERS

The actual amount of a buyer’s Program subsidy shall be computed according to the housing ratio parameters specified in Section 5.1. Each borrower shall receive only the subsidy needed to allow them to become homeowners (“the Gap”) while keeping their housing costs affordable. The primary lender will use the “front-end ratio” of housing-expense-to-income to determine the amount of the primary loan and, ultimately, the Program subsidy amount required, bridging the

gap between the purchase price (less down payment) and the amount of the primary loan.

6.4 RATE AND TERMS FOR PROGRAM LOANS

The City’s Program Loan and Agency Loan of up to \$105,000 will consist of two Promissory Notes. The Agency Loan will be up to a \$20,000 Note to the property amortized at 1.5% compound interest for a Forty-Five (45) year term. The Program Loan will be up to \$85,000 amortized at 1.5% simple interest for a Thirty-year (30) term.

Monthly, on or before the first day of each month during the term of the Agency Note, the Borrower shall make monthly payments as per the amortization schedule to be applied to the Agency Note.

On the thirtieth anniversary date of the Program Note, the entire outstanding principal balance, all accrued interest, and Share of Equity will be due and payable. The rate, term, and number of payments of the two Notes will be as follows:

Secured Notes		
	Agency Note	Program Note
Amount Loaned	\$20,000	\$85,000
Interest Rate	1.5% (Compound Interest)	1.5% (Simple Interest)
Term	540 months Fully Amortized	360 months Deferred
Total number of payments	540	1
Monthly Payment	\$51	0
Balloon Payment	\$0	\$85,000

A. First Right of Refusal

Before sale or transfer of title to the property, the Borrower shall notify the City in writing of their intention to sell or otherwise transfer title. The City shall have the first right of refusal to purchase the property at the appraised fair market value, as determined in accordance with loan documents. The City may, in City’s sole discretion, chose to assign this first right of refusal to purchase the property to the agency, or to a nonprofit corporation. Upon City’s receipt of Borrower’s notification of intent to sell or transfer, the City, and/or the City’s contractor, agent, or assignee, shall have the right to reasonably enter the property for purposes of conducting structural pest and building inspections, and an appraisal. Lender shall exercise its first right of refusal or right to assign within sixty (60) days after receiving Borrower’s written notification of intent to sell.

B. Share of Equity

The City shall have a Share of Equity on all Program and Agency Notes. In the event the Borrower transfers or sells the property, or upon an accelerating transfer of the property, the City shall share in the appreciation of the value of the property in the manner described in the Note and Deed of Trust. The method of determining the City’s Share of Equity is as follows:

1. Program Note

City's Share of Equity is based on the ratio of the total principal of the Program Note to the Original Purchase Price of the Property, as that term is defined in the Promissory Note. This ratio is multiplied by the appreciation in fair market value of the property, which value is determined in accordance with loan documents. Beginning on the sixth anniversary of the Program Note, and continuing each anniversary date thereafter until the Maturity Date, the City's Share of Equity shall be reduced by 1/25th until it reaches zero on the Maturity Date as follows:

City's Equity Ratio (CER) for Year $n = CER - (n/25 \times CER)$,
where $n =$ the number of years after the fifth anniversary date of the Note

2. Agency Note

City's Share of Equity is based on the ratio of the total principal of the Agency Note to the Original Purchase Price of the Property, as that term is defined in the Promissory Note. This ratio is multiplied by the appreciation in fair market value of the property, which value is determined in accordance with loan documents. Beginning on the sixth anniversary of the Program Note, and continuing each anniversary date thereafter until the Maturity Date, the City's Share of Equity shall be reduced by 1/40th until it reaches zero on the Maturity Date as follows:

City's Equity Ratio (CER) for Year $n = CER - (n/40 \times CER)$,
where $n =$ the number of years after the fifth anniversary date of the Note

3. . The appreciation in the value of the property shall be determined as the difference between the appraised fair market value of the property at time of sale, which valued is determined in accordance with loan documents, adjusted by any Qualified Improvements as defined in Section 6.4.C of these guidelines, and the original purchase price of the property.

4. The fair market value of the property shall be established by an appraiser, approved by the City as qualified to conduct appraisals under the Program Loan.

5. The formula for calculating the City's Share of Equity is as follows:

a. City's Equity Ratio (CER) = $\left(\frac{\text{Note Principal}}{\text{Original Purchase Price}} \right)$

Where Note Principal is that amount evidenced by the Note for each the Program and the Agency loan. The City's Share of Equity is calculated separately for each note.

b. Appreciation in Fair Market Value (AFM) = $FMV - QI - OP$
Where, $FMV =$ Appraised fair market value
 $QI =$ Qualified Improvements
 $OP =$ Original Purchase Price

c. City's Share of Equity = $CER \times AFM$

6. The City's Share of Equity shall be capped at the time of the initial purchase. The dollar amount of the maximum share of equity shall be inserted into the Program and Agency loan documents. The maximum share of equity for each Note shall be calculated as the difference between the total interest payments based on the terms of the Primary Loan (Open Market Total Interest) and total interest payments based on the terms of each the Program and Agency Notes (Subsidy Total Interest). Calculations are as follows:

a. Program Note

Program Loan	
Open Market Total Interest (OMTI)	Program Note Subsidy Total Interest (STI _P)
$OMTI = NP \times (1 + R/K)^T$	$STI_P = PNP \times PIR \times PT$
NP = Note Principal	PNP = Program Note Principal
R = Annual Interest Rate of the Primary Loan	PIR = Program Annual Interest Rate
K = Primary Loan Number of Periods per Year	PT = Program Note Term
T = Term of Primary Loan	

b. Agency Note

Agency Loan	
Open Market Total Interest (OMTI)	Agency Note Subsidy Total Interest (STI _A)
$OMTI = NP \times (1 + R/K)^T$	$STI_A = ANP \times (1 + AIR/AK)^{AT}$
NP = Note Principal	ANP = Agency Note Principal
R = Annual Interest Rate of the Primary Loan	AIR = Program Annual Interest Rate
K = Primary Loan Number of Periods per Year	AK = Number of Periods per Year of Agency Loan
T = Term of Primary Loan	AT = Agency Note Term

The Share of Equity cap (“CAP”) for each the Program Note and the Agency Note shall be calculated as follows using $STI_{(P)}$ and $STI_{(A)}$ for STI , Respectively:

$$CAP = OMTI - STI$$

A sale, transfer, or other accelerating event, voluntary or otherwise, that occurs within the first five years of the note shall have a Share of Equity payment equal to this cap. Income to the City from the Share of Equity will be applied to the source of funds of the original note on a prorated basis.

7. The Share of Equity shall be reduced to zero at the Loan Maturity Date for all borrowers, if the borrower has:
 - a. Continued to occupy the home for the full loan term; and
 - b. Complied with all other loan requirements as specified in the Note and Deed for the full loan term.

C. Qualifying Improvements

“Qualifying Improvement” means substantial repairs, renovations, or additions that increase the value of the property or bring the property into conformance with local or state building or housing standards, provided such non-conformance is the result of events that preceded the Borrower’s acquisition of the property. Such improvements will only be considered qualifying if a building permit is required to conduct the improvement.

Such improvements will be used by the City to reduce its share of equity as outlined in the note/deed or other handout materials.

D. Agency Funds

The source of Agency Loan funds will be entirely from the City’s Community Development Agency. HOME Program funds shall not be used for Agency Loan funds. The Agency Loan funds may be used to pay for the following:

- City and County Taxes
- Commission paid to buyer’s agent
- Loan origination fees—(not to exceed 3½ % of the primary loan and other fees associated with the primary loan)
- Appraisal fee
- Credit report
- Flood Insurance Rate Map verification
- Prepaid hazard insurance (not to exceed one year)
- Title search
- Title insurance
- Mortgage insurance application fees
- Tax service
- Underwriting fee
- Document preparation
- Notary fees
- Recording fees
- Title company settlement or closing costs
- Additional down payment

6.5 LOAN TO VALUE

The loan-to-value ratio for a CalHome Program loan, when combined with all other indebtedness to be secured by the property, shall not exceed 100 percent of the sales price plus a maximum of up to 5 percent of the sales price to cover actual closing costs.

7.0 PROGRAM LOAN REPAYMENT

7.1 PAYMENTS ARE VOLUNTARY

Borrowers may begin making voluntary payments at any time, upon notification to and approval of the City.

7.2 RECEIVING LOAN PAYMENTS

- A. Program loan payments will be made to:
Arcata Economic Development Corporation (AEDC)
100 Ericson Court, Suite 100
Arcata, CA 95521
- B. The City has contracted with AEDC, a third party agency, to collect and distribute payments and/or complete all loan servicing aspects of the Program and who will be the receiver of loan payments or recapture funds and will maintain a financial record-keeping system to record payments and file statements on payment status. Payments shall be deposited and accounted for in the City's Program Income Account, as required by all three HCD programs. The Program lender will accept loan payments from borrowers prepaying deferred loans, and from borrowers making payments in full upon sale or transfer of the property. All loan payments are payable to the City.

7.3 DUE UPON SALE OR TRANSFER

- A. Loans are due upon sale or transfer of title (unless assumable as in B below) or when borrower no longer occupies the home as his/her principal residence or upon the loan maturity date. The loan will be in default if the borrower fails to maintain required fire or flood insurance, fails to pay property taxes, or fails to maintain primary residency.
- B. Program loans may or may not be assumable according to the HCD program and the loan documents.

7.4 REFINANCE OPTION

- A. The refinance option will be available to any borrower who qualifies as low income or a senior at the time the Program loan matures. Borrower may refinance when the Program loan reaches the Loan Maturity Date. The purpose of the refinance is to enable borrowers to pay off the Program Loan principal and interest through scheduled payments rather than a balloon payment.
- B. Borrower shall make monthly payments on the Note in an amount equal to the monthly payment previously made on the Senior Note plus any monthly payment previously made on the City Note, which payment shall be applied first to pay

property taxes or insurance if there are property tax or insurance impounds; second, to accrued interest due and payable; and third, to the principal balance.

- C. There will be no prepayment penalty.
- D. There will be no additional Share of Equity requirements with the refinance option.

7.5 LOAN MONITORING PROCEDURES

City will monitor Borrowers and their housing units to ensure adherence to Program requirements including, but not limited to, the following:

- A. Owner-occupancy
- B. Property tax payment
- C. Hazard insurance coverage
- D. Good standing on Primary loans
- E. General upkeep of housing units

8.0 PROGRAM LOAN PROCESSING AND APPROVAL

- A. Loan Processing

All homebuyers or their representatives will be sent out an eligibility packet with all the necessary forms, disclosures, information, and application. They should submit a complete application packet with all the City's Program loan documents executed as well as all the information from the Primary Lender. The Primary Lender should submit: 1) accepted property sales contract with proper seller notification, 2) mortgage application with good faith estimates and first mortgage disclosures, 3) full mortgage credit report and rent verification, 4) current third party income verifications and verifications of assets, 5) homeownership education certificate if applicable. Staff will work with local lenders to ensure qualified participants receive only the benefit from the **City's** Program needed to purchase the housing unit and that leveraged funds will be used when possible, for example in many cases the Primary Lender will not require mortgage insurance with the City's second in place which will save on the homebuyer's monthly payment.

- B. Credit worthiness

Qualifying ratios are only a rough guideline in determining a potential borrower's credit-worthiness. Many factors such as excellent or poor credit history, amount of down payment, and size of loan will influence the decision to approve or disapprove a particular loan. The City will review the borrower's credit history, and documentation of credit history at time of loan will be maintained in the loan file. The City may elect to obtain a credit report or rely on a current copy obtained by the primary lender.

Credit History Report

To qualify for a loan under this program, an applicant's Credit History Report shall have a score of no less than 620. A Credit History Report with a score of

less than 620 may be eligible for a loan with:

1. Receipt of a written explanation from borrower with third party documentation as necessary;
2. An evaluation of said documentation and written recommendation from City Staff after consultation with private lenders; and
3. The City Manager's written authorization.

C. Documents from Primary Lender

After initial review of the qualified homebuyer's application packet, the Program Operator will request any additional documents needed. Documents may be faxed but originals shall be received through the mail before Program funds are committed to escrow. Based on receipt and review of the final documents, the Program Operator will do an income certification using the most recent HCD program's guidance on income calculation and determination and homebuyer certification (review of credit report and income taxes). Documentation of affordability will then be verified and subsidy requirement determined.

D. Disclosure of Program and Loan Information to Homebuyers

The Program's application and disclosure forms will contain a summary of the borrower's loan qualifications with and without Program assistance. Housing ratios with and without Program assistance will also be outlined in these guidelines. Information on the Program's application will be documented with third party verifications in the file. For example, the sales contract will provide the final purchase price and outline how much of the closing costs are to be paid by the seller, etc. The appraisal, termite and title report will provide information to substantiate the information in the sales contract and guide the construction inspection. The Program loan application will provide current debt and housing information and will be documented by the credit report and income/asset verifications. The Primary Lender's approval letter and estimated closing cost statement should reflect all the information in the loan package and show any contingencies of loan funding. Reviewing the Primary Lender's loan underwriting documentation will provide basic information about the qualification of the applicant and substantiate the affordability provided by the Program loan. By reviewing and crosschecking all the Primary Lender information, the final Program loan amount approved will fall within the affordability parameters of the Program.

8.2 COMPLETION OF UNDERWRITING AND APPROVAL OF PROGRAM LOAN

Once the loan approval package has been completed, the Program Operator will submit it to the City for approval. City will review the request and may approve it with or without conditions. Upon approval, a final closing date for escrow is set and Program funds are accessed for the homebuyer.

8.3 PRIMARY AND PROGRAM LOAN DOCUMENT SIGNING

The homebuyer(s) sign(s) both promissory notes, deeds of trust, and statutory lending notices (right of rescission, truth in lending, etcetera); the deeds of trust are recorded with the County Clerk/Recorder at the same time; and the request(s) for copy of notice of

default are recorded with the County Clerk/Recorder.

8.4 ESCROW PROCEDURES

The escrow/title company shall review the escrow instruction provided by the Program lender and shall issue a California Land Title Association (CLTA) policy and the American Land Title Association (ALTA) after closing. The CLTA policy is issued to the homebuyer and protects them against failure of title based on public records and against such unrecorded risks as forgery of a deed. The ALTA is issued to each lender providing additional coverage for the physical aspects of the property as well as the homebuyer's title failure. These aspects include anything that can be determined only by physical inspection such as correct survey lines, encroachments, mechanics liens, mining claims, and water rights. The Program lender instructs the escrow/title company in the escrow instructions as to what may show on the policy. Specifically, the amount of insurance on the policy (all liens should be covered) and the loss payee (each lender should be listed as a loss payee and receive an original ALTA) may show on the policy.

9.0 SUBORDINATE FINANCING

With today's high costs, in order for a low-income household to obtain a home, several funding sources might be required. Subordinate loans may be used to cover mortgage subsidy costs that exceed the Program maximum loan amount. All subordinate liens must have the payments deferred and the term must be for at least as long as the term of the Program loan.

A. Refinancing of Senior Liens/Subordination

All loans shall become due and payable when any first or senior mortgage or Deed of Trust is refinanced. However, the City may waive this requirement if the purpose of the refinancing is exclusively to take advantage of lower interest rates, and the amount of debt is not increased. The applicant is required to complete a Certificate of Occupancy and the Lender shall complete a Certificate of Mortgaged Funds.

B. Subordination Policy

California Code of Regulations, Title 25, Division 1, Chapter 7, Subchapter 19, Section 8315. Subordination Policy states:

1. The Department may execute and cause to be recorded a subordination agreement subordinating the Department's lien so long as the subordination does not increase the Department's risk beyond that contemplated in the Program loan or grant commitment, as may be amended from time to time, and so long as the subordination would further the interest of the Program. However, and except for Projects assisted by the U.S. Department of Housing and Urban Development under the Section 811 or Section 202 programs, the Department shall not enter into a subordination agreement or other agreement that contains any of the following:
 - a. Any limitation of, or condition on, the Department's exercise of its remedies including, but not limited issuing a notice of default based on a breach under the Department's loan documents, including a default based solely on a breach of the senior lienholder's documents.

- b. An agreement that the senior lienholder’s acceptance of a deed in lieu of foreclosure would result in the senior lienholder taking title to the Rental Housing Development free and clear of the Department’s lien(s).
 - c. An agreement permitting any modification or supplement of the senior lienholder’s lien without the prior written consent of the Department except an agreement that permits a senior lienholder to make advances to:
 - i. Cure a default under a lien with a higher priority than the Department’s lien;
 - ii. Pay delinquent taxes on the security property;
 - iii. Pay delinquent hazard or liability insurance premiums for the security property; or
 - iv. To protect the health and safety of the tenants.
 - d. An agreement that would require the Department to undertake additional obligations to any party.
2. The Department’s lien shall not be subordinated to the liens of a local government lender unless the amount of the local government loans is more than twice the amount of the Department’s total assistance to the Project (including both loans and grants).
3. As used in this section:
- a. “Department’s lien” means a deed of trust, regulatory agreement, or other agreement securing payment or performance under an award of Program funds that has been recorded in the office of the recorder of the county in which the Rental Housing Development is located.
 - b. “Lien of a local government lender” means a recorded deed of trust or covenant running with the land that affects the maintenance, use, or occupancy of the Rental Housing Development.

NOTE: Authority cited: Sections 50406(n); 50517.5(a)(1), (3); 50675.1(c); 50675.11; 50896.3(b). Reference: 50517.5 (d)(4)(D), 50675(e), 50675.1(b), 50675.6(d), 50896, 50896.1, and 50896.3 Health and Safety Code

4. The City may execute a subordination agreement to a refinancing of a senior lien that includes the utilization of accrued equity in the home for the sole purpose of making Qualifying Improvements to the property. Under no circumstance is the property owner to receive any funds for uses other than to make Qualifying Improvements. The subordination agreement is subject to the following conditions:
- a. The term of the refinanced Note shall be the remainder of the term of the original Note. (i.e. a 30 year Note signed in 2000 and refinanced in 2005 shall have a new term of 25 years);
 - b. Qualifying Improvements are those meeting Section 6.4.C guidelines, examples and details of which are listed in the Qualifying Improvements Handout;

- c. Qualifying Improvements may only be made to the structure in which the borrower resides or is renting to a low income household;
- d. The total debt to value ratio, including the proposed Qualifying Improvements, cannot exceed 80% of a current appraisal;
- e. Qualifying Improvements must be fully contracted; no “self-help” projects;
- f. Qualifying Improvements must be permitted through the City’s Building Official;
- g. Funds used for Qualifying Improvements are to be maintained in an escrow account and disbursed to the properly licensed and insured contractor performing the Qualifying Improvements;
- h. Upon completion of the Qualifying Improvements the homeowner shall provide the City the following documentation:
 - i. A conformed copy of a Notice of Completion;
 - ii. Invoices; and
 - iii. Final building inspection records.

10.0 EXCEPTIONS AND SPECIAL CIRCUMSTANCES

10.1 DEFINITION OF EXCEPTION

Any case to which a standard policy or procedure, as stated in the guidelines, does not apply or an applicant treated differently from others of the same class would be an exception.

10.2 PROCEDURE FOR EXCEPTIONAL CIRCUMSTANCES

- A. The City or its agent may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including the City's recommended course of action and any written or verbal information supplied by the applicant.
- B. The City shall make a determination of the exception based on the recommendation of the Program Operator. The request can be presented to the City’s Loan Advisory Committee and maybe approved by the City Manager.

11.0 COMPLAINT RESOLUTION PROCEDURE

The City’s Program Operator and/or Loan-Servicing Agent, currently RCAA and AEDC respectively, will work informally with each borrower to resolve any complaints associated with the Program. If complaints cannot be resolved informally, borrowers shall be notified that they should submit a written complaint to the City’s Director of Community Development. The Community Development Director will direct the City’s Program Manager to attempt to informally resolve the complaint within 30 days of the date of receipt of the complaint to the satisfaction of the borrower. However, if the City’s Program Manager is unable to resolve the complaint to the satisfaction of the borrower, the Program Manager will assist the borrower, if necessary, to draft a written complaint. Upon receipt of this second written complaint, one of the following two dispute resolutions procedures will apply:

1. Arbitration: If the dispute is between the borrower and the contractor employed to make the improvements to the property, the City will assist the borrower to file a complaint utilizing binding arbitration.
2. Mediation by the City: If the dispute involves the Program Operator or Loan Servicing Agent's responsibilities, HCD regulations, these Guidelines or any other matter other than a dispute between the contractor and the borrower, the City will attempt to informally mediate the complaint utilizing the following process:
 - a. Upon receipt of the complaint, the matter will be referred to the following persons, who shall act on the City's behalf as dispute resolution facilitators: Director of Finance, Community Development Director, and the Building Official.
 - b. The City's facilitators will review the complaint in light of the following:
 - i. These Guidelines;
 - ii. The most recent CDBG grant management manual;
 - iii. The agreements between the Program Operator and/or Servicing Agent and the City;
 - iv. The Rehabilitation Contract Documents;
 - v. The loan documents; and
 - vi. Such other documents which are referred to in the complaint.
 - c. The City's facilitators will meet with the borrower within thirty (30) days of receipt of the complaint. If, following the meeting with the borrower, the City's facilitators are unable to resolve the complaint to the satisfaction of the borrower, the matter will be submitted to binding arbitration in accordance with the California arbitration provisions of Code of Civil Procedure §1280, et seq.

12.0 OTHER HOMEOWNERSHIP PROGRAMS

This section amends the existing First Time Homebuyer Guidelines to include additional eligible homebuyer programs. The FTHB Guidelines apply to all programs outlined in this section, with the modifications specified hereunder.

12.1 COMMUNITY LAND TRUST

The City's Program Loan of up to \$85,000 at 1.5% simple interest for a thirty-year (30) term shall be available for Borrowers participating in the Community Land Trust (CLT). CLT housing is subject to affordability resale-restrictions, and therefore the Agency Loan Share of Equity is not a requirement, but may be imposed. Loan Documents specific to each CLT project shall define the resale restrictions and Share of Equity. All other First Time Homebuyer Guidelines apply for Community Land Trust home loans.

12.2 MANUFACTURED HOMES IN MOBILE HOME PARKS

- A. Requirements from the Manufactured Home guidelines under the HOME Program, from HUD CPD Notice 03-05.
1. The homesite is defined as a space within a mobile home park that is leased by the homeowner. The homesite lease term and the term of the City's loan shall be 30 years, and shall be equal to the period of affordability.
 2. Manufactured homes must meet the property standards at 24 CFR Part 92.251 (a)(4).
- B. City of Arcata Manufactured Home requirements.
1. The cost to remove the existing manufactured home from a homesite in preparation for installation of the new home shall be included in the City's loan.
 2. The term of the homesite lease shall be 30 years from the date of the Program and Agency Loan documents.
 3. Manufactured Homes shall be new, shall not have wheels, and shall be attached to a permanent foundation at the homesite.
- C. The amount of Program and Agency assistance to a low-income homebuyer toward purchase of a manufactured home shall not exceed 49% of the cost of the manufactured home. The City's Program Loan and Agency Loan will consist of two parts. The Agency Loan will be the greater of: 1) \$6,000; or 2) the loan amount needed for a monthly payment that is at least equal to the amount paid by the City for Loan Servicing fees. The Agency Loan is amortized at 1.5% compound interest for a Forty-Five (45) year term. The Program Loan will fund the remaining "gap" and is amortized at 1.5% simple interest for a Thirty-year (30) term.
- D. All other First Time Homebuyer Guidelines apply for manufactured homes.

12.3 MODERATE INCOME

- A. Current Income Limits for the Area, by Household Size
- All applicants must certify that they meet the household income eligibility requirements for the applicable HCD program(s) and have their household income documented. The income limits in place at the time of loan approval will apply when determining applicant income eligibility. All applicants must have incomes at or below 120% of the County's area median income (AMI), adjusted for household size, as published by HCD each year. Current limits are included as a handout to these Guidelines and are incorporated herein by reference. The link to the official, HCD-maintained, income limits is:

<http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html>

- B. Rate and Terms for Agency Loan

The Agency Loan will be up to a \$20,000 Note to the property amortized at 1.5% compound interest for a Forty-Five (45) year term. Moderate income households are not eligible for a Program Loan.

C. Manufactured home assistance

The moderate income Agency loan may be used to assist borrowers to purchase manufactured homes in mobile home parks. Requirements outlined in Section 12.2 A and 12.3 B of these Guidelines apply. The City Manager may approve a 30 year loan term to match the homesite lease on a case-by-case basis.

D. Qualifying Ratios

The applicant must obtain a private loan and an Agency loan secured by a first and second deed of trust, respectively, with monthly payments not less than 30% of the applicant's gross monthly income. The "front end" maximum monthly housing costs and other debt (1st and 2nd mortgage, insurance, taxes, and all other monthly housing debt) [PITI] shall not exceed 38% of the applicants gross monthly income. The "back end ratio" of total debt including PITI plus other monthly long-term debt payments, such as car, student, or other personal loans and credit card debt, shall not exceed 42%. The City Manager may adjust the "front end" and "back end" ratio by up to 5% to match a local Private lender's underwriting ratios on a case by case basis provided that the borrower has demonstrated that over a period of the last 12 months the ability to pay the housing costs and total debt equal to the proposed "front end" or "back end" ratio.

E. All other First Time Homebuyer Guidelines apply for moderate income households.

12.4 NEW CONSTRUCTION PROJECTS

12.5 PROJECTS UNDER THIS SECTION WILL BE APPROVED ON A CASE-BY-CASE BASIS, AND REGULATED UNDER THE TERMS OF A COUNCIL-APPROVED LOAN AGREEMENT.HOUSING ACQUISITION PROJECTS

As per the 2006 CDBG Notice Of Funds Available, Mobile Home Park Acquisition and Rental Housing acquisition are an eligible use of CDBG Housing Acquisition funds under 24 CFR Part 570.201 (n). As per 24 CFR Part 92.2, under the HOME Program Homeownership means ownership in fee simple title or a 99-year leasehold interest. Fannie Mae defines a "leasehold interest as the right to use and occupy real property by the existence of a lease agreement. The lessee (tenant or renter) enjoys these rights for a stipulated period of time, subject to the payment of rent and other conditions."

The purpose of this section is to authorize Housing Acquisition projects for acquisition of multiple homesites within a Mobile Home Park with regulatory restrictions offering a 99-year ground lease to residents. Mobile Home Park homesite rent limits shall be included as part of the 99-year ground lease to maintain affordability of the site for the duration of the ground lease term. The 99-year ground lease shall also satisfy the definition of "Homeownership" thereby designating Mobile Home Park residents as homeowners. The loan underwriting for these projects shall be as outlined in the State uniform multifamily regulations that were adopted on September 29, 2003.

The City's underwriting shall meet the following criteria:

1. Not increase homesite rental rates substantially over existing homesite rental levels.
2. To establish homesite rent levels at 16% of the area gross median income for a 2 person household and that homesite rent levels plus utilities not exceed 25% of the area gross median income for a 2 person household.
3. To make it feasible for tenants to carry a mortgage on a mobile home where the borrowers total housing costs including space rent, utilities, and mortgage do not exceed 38% of the area gross median income as outlined in the City's 1st Time Homebuyer Guidelines.
4. To ensure that the project does not require ongoing rental assistance.

ATTACHMENT A 24 CFR Part 5 ANNUAL INCOME INCLUSIONS AND EXCLUSIONS

Part 5 Inclusions

This table presents the Part 5 income inclusions as stated in the Code of Federal Regulations.

General Category	Statement from 24 CFR 5.609 paragraph (b) (April 1, 1998)
1. Income from wages, salaries, tips, etc.	The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
2. Business Income	Net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness cannot be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight-line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family.
3. Interest & Dividend Income	Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in number 2 (above). Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family. Where the family has net family assets in excess of \$5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD.
4. Retirement & Insurance Income	The full amount of periodic payments received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic payment (except as provided in number 14 of Income Exclusions).
5. Unemployment & Disability Income	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. Welfare Assistance	Welfare Assistance. If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of: the amount of the allowance or grant exclusive of the amount specifically designated for

	shelter or utilities; plus · the maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family welfare assistance is ratably reduced from the standard of need by applying a percentage, the amount calculated under this paragraph is the amount resulting from one application of the percentage.
7. Alimony, Child Support, & Gift Income	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. Armed Forces Income	All regular pay, special day and allowances of a member of the Armed Forces (except as provided in number 7 of Income Exclusions).

Part 5 exclusions

This table presents the Part 5 income exclusions as stated in the Code of Federal Regulations.

General Category	Statement from 24 CFR 5.609 paragraph (c) (April 1, 1998)
1. Income of Children	Income from employment of children (including foster children) under the age of 18 years.
2. Foster Care Payments	Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
3. Inheritance and Insurance Income	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 (except as provided in number 5 of Income Inclusions).
4. Medical Expense Reimbursements	Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of Live-in Aides	Income of a live-in aide (as defined in 24 CFR5.403).
6. Student Financial Aid	The full amount of student financial assistance paid directly to the student or to the educational institution.
7. "Hostile Fire" Pay	The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
8. Self-Sufficiency Program Income	<ul style="list-style-type: none"> a. Amounts received under training programs funded by HUD. b. Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS). c. Amounts received by a participant in other publicly assisted

	<p>programs that are specifically for, or in reimbursement of, out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and that are made solely to allow participation in a specific program.</p> <p>d. Amounts received under a resident service stipend (as defined in 24 CFR 5.609(c)(8)(iv).</p> <p>e. Incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment-training program.</p>
9. Gifts	Temporary, nonrecurring, or sporadic income (including gifts).
10. Reparation Payments	Reparation payments paid by a foreign government pursuant to claims under the laws of that government by persons who were persecuted during the Nazi era.
11. Income from Full-time Students	Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of household or spouse).
12. Adoption Assistance Payments	Adoption assistance payments in excess of \$480 per adopted child.
13. Family Support Act Income	For public housing only, the earnings and benefits to any family member resulting from the participation in a program providing employment training and supportive services in accordance with the Family Support Act of 1988, section 22 of the 1937 Act (43 U.S.C. 1437t), or any comparable federal, state or local law during the exclusion period.
14. Social Security & SSI Income	Deferred periodic amounts from SSI and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.
15. Property Tax Refunds	Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.
16. Home Care Assistance	Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep this developmentally disabled family member at home.
17. Other Federal Exclusions	Amounts specifically excluded by any other federal statute from consideration as income for purposes of determining eligibility or

under any program to which the exclusions of 24 CFR 5.609(c) apply, including:

- ▶ The value of the allotment made under the Food Stamp Act of 1977;
- ▶ Payments received under the Domestic Volunteer Service Act of 1973 (employment through VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, senior companions);
- ▶ Payments received under the Alaskan Native Claims Settlement Act;
- ▶ Payments from the disposal of funds of the Grand River Band of Ottawa Indians;
- ▶ Payments from certain submarginal U.S. land held in trust for certain Indian tribes;
- ▶ Payments, rebates or credits received under Federal Low-Income Home Energy Assistance Programs (includes any winter differentials given to the elderly);
- ▶ Payments received under the Main Indian Claims Settlement Act of 1980 (Pub. L. 96-420, 9z Stat. 1785);
- ▶ The first \$2,000 of per capita shares received from judgements awarded by the Indian Claims Commission or the Court of Claims or from funds the Secretary of Interior holds in trust for an Indian tribe;
- ▶ Amounts of scholarships funded under Title IV of the Higher Education act of 1965, including awards under the Federal work-study program or under the Bureau of Indian Affairs student assistance programs, or veterans benefits;
- ▶ Payments received under Title V of the Older Americans Act (Green Thumb, Senior Aides, Older American Community Service Employment Program);
- ▶ Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the In Re Agent Orange product liability litigation, M.D.L. No. 381 (E.D.N.Y.);
- ▶ Earned income tax credit;
- ▶ The value of any child care provided or reimbursed under the Child Care and Development Block Grant Act of 1990; and
- ▶ Payments received under programs funded in whole or in part under the Job Training Partnership Act (employment and training programs for native Americans and migrant and seasonal farm workers, Job Corps, veterans employment programs, State job training programs and career intern programs).

Attachment B – Seller’s Lead-based Paint disclosure

SELLERS LEAD-BASED PAINT DISCLOSURE

Disclosure of Information on Lead-Based Paint and/or Lead-Based Paint Hazards

Lead Warning Statement

Every purchaser of any interest in residential real property on which a residential dwelling was built prior to 1978 is notified that such property may present exposure to lead from lead-based paint that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage, including learning disabilities, reduced intelligence quotient, behavioral problems, and impaired memory. Lead poisoning also poses a particular risk to pregnant women. The seller of any interest in residential real property is required to provide the buyer with any information on lead-based paint hazards from risk assessments or inspections in the seller’s possession and notify the buyer of any known lead-based paint hazards. A risk assessment or inspection for possible lead-based paint hazards is recommended prior to purchase.

Seller’s Disclosure

(a) Presence of lead-based paint and/or lead-based paint hazards (check (i) or (ii) below):

(i) ___ Known lead-based paint and/or lead-based paint hazards are present in the housing (explain).

(ii) ___ Seller has no knowledge of lead-based paint and/or lead-based paint hazards in the housing.

(b) Records and reports available to the seller (check (i) or (ii) below):

(i) ___ Seller has provided the purchaser with all available records and reports pertaining to Lead-based paint and/or lead-based paint hazards in the housing (list documents below).

(ii) ___ Seller has no reports or records pertaining to lead-based paint and/or lead-based paint hazards in the housing.

Purchaser’s Acknowledgment (initial)

(c) ___ Purchaser has received copies of all information listed above.

(d) ___ Purchaser has received the pamphlet Protect Your Family from Lead in Your Home.

(e) ___ Purchaser has (check (i) or (ii) below):

(i) ___ received a 10-day opportunity (or mutually agreed upon period) to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards; or

(ii) ___ waived the opportunity to conduct a risk assessment or inspection for the presence of Lead-based paint and/or lead-based paint hazards.

Agent’s Acknowledgment (initial)

(f) ___ Agent has informed the seller of the seller’s obligations under 42 U.S.C. 4852d and is aware of his/her responsibility to ensure compliance.

Certification of Accuracy

The following parties have reviewed the information above and certify, to the best of their knowledge, that the information they have provided is true and accurate.

_____ Seller	_____ Date	_____ Seller	_____ Date
_____ Purchaser	_____ Date	_____ Purchaser	_____ Date
_____ Agent	_____ Date	_____ Agent	_____ Date

Attachment C – lead-based paint visual assessment form

LEAD-BASED PAINT

VISUAL ASSESSMENT, NOTICE OF PRESUMPTION, AND HAZARD REDUCTION FORM

Section 1: Background Information			
Property Address:		No LBP found or LBP exempt <input type="checkbox"/>	
Select one:	Visual Assessment <input type="checkbox"/>	Presumption <input type="checkbox"/>	Hazard Reduction <input type="checkbox"/>

Section 2: Visual Assessment. Fill out Sections 1, 2, and 6. If paint stabilization is performed, also fill out Sections 4 and 5 after the work is completed.	
Visual Assessment Date:	Report Date:
Check if no deteriorated paint found <input type="checkbox"/>	
Attachment A: Summary where deteriorated paint was found. For multi-family housing, list at least the housing unit numbers and common areas and building components (including type of room or space, and the material underneath the paint).	

Section 3: Notice of Presumption. Fill out Sections 1, 3, 5, and 6. Provide to occupant w/in 15 days of presumption.	
Date of Presumption Notice:	
Lead-based paint is presumed to be present <input type="checkbox"/> and/or Lead-based paint <i>hazards</i> are presumed to be present <input type="checkbox"/>	
Attachment B: Summary of Presumption: For multi-family housing, list at least the housing unit numbers and common areas, bare soil locations, dust-lead location, and or building components (including type of room or space, and the materials underneath the paint) of lead-based paint and/or hazards presumed to be present.	

Section 4: Notice of Lead-Based Paint Hazard Reduction Activity. Fill out Sections 1, 4, 5, and 6. Provide to occupant w/in 15 days of after work completed.	
Date of Hazard Reduction Notice:	
Initial Hazard Reduction Notice? Yes <input type="checkbox"/> No <input type="checkbox"/>	Start & Completion Dates:
If “No”, dates of previous Hazard Reduction Activity Notices:	
Attachment C: Activity locations and types. For multi-family housing, list at least the housing unit numbers and common areas (for multifamily housing), bare soil locations, dust–lead locations, and/or building components (including type of room or space, and the material underneath the paint), and the types of lead-based paint hazard reduction activities performed at the location listed.	
Attachment D: Location of building components with <u>lead-based paint remaining</u> in the rooms, spaces or areas where activities were conducted.	
Attachment E: Attach clearance report(s), using DHS form 8552 (and 8551 for abatement activities)	

Section 5: Resident Receipt of Notice for Presumption or Lead-Based Paint Hazard Reduction Activity

Printed Name:

Signature:

Date:

Section 6: Contact Information

Organization:

Contact Name:

Contact Signature:

Date:

Address:

Phone:

Attachment D – Lead-based Paint Contingency Language

Homebuyer Assistance Program

Sample Lead-Based Paint Contract Contingency Language

This contract is contingent upon a risk assessment or inspection of the property for the presence of lead-based paint and/or lead-based paint hazards at the Purchaser's expense until 9 p.m. on the tenth calendar-day after ratification. This ending date is: _____. [Insert date 10 days after contract ratification or a date mutually agreed upon]. (Intact lead-based paint that is in good condition is not necessarily a hazard. See the EPA pamphlet "Protect Your Family From Lead in Your Home" for more information.)

This contingency will terminate at the above predetermined deadline unless the Purchaser (or Purchaser's agent) delivers to the Seller (or Seller's agent) a written contract addendum listing the specific existing deficiencies and corrections needed, together with a copy of the inspection and/or risk assessment report.

The Seller may, at the Seller's option, within _____ days after Delivery of the addendum, elect in writing whether to correct the condition(s) prior to settlement. If the Seller will correct the condition, the Seller shall furnish the Purchaser with certification from a risk assessor or inspector demonstrating that the condition has been remedied before the date of the settlement. If the Seller does not elect to make the repairs, or if the Seller makes a counteroffer, the Purchaser shall have _____ days to respond to the counter-offer or remove this contingency and take the property in "as is" condition or this contract shall become void. The Purchaser may remove this contingency at any time without cause.

Seller Name: _____ Date: _____

Purchaser: _____ Date: _____

Property Address: _____

Attachment E – City of Arcata Jurisdiction

Attachment F – Disclosure to seller

Disclosure to Seller with Voluntary, Arm's Length Purchase Offer

DECLARATION

This is to inform you that (name of buyers) _____ would like to purchase the property, located at (address) _____, if a satisfactory agreement can be reached. We are prepared to pay \$ _____ for a clear title to the property under conditions described in the attached proposed contract of sale.

Because Federal funds may be used in the purchase, however, we are required to disclose to you the following information:

1. The sale is voluntary. If you do not wish to sell, the buyer, _____, thru the agency, (name of agency/City) _____ will not acquire your property. The buyer does not have the power of eminent domain to acquire your property by condemnation (i.e. eminent domain) and the agency/City _____ will not use the power of eminent domain to acquire the property.
2. The estimated fair market value of the property is \$ _____ and was estimated by _____, to be finally determined by a professional appraiser prior to close of escrow.

Since the purchase would be a voluntary, arms length, transaction you would not be eligible for relocation payments or other relocation assistance under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA), or any other law or regulation. Also, as indicated in the contract of sale, this offer is made on the condition that no tenant will be permitted to occupy the property before the sale is completed.

Again, please understand that if you do not wish to sell your property, we will take no further action to acquire it. If you are willing to sell the property under the conditions described in the attached contract of sale, please sign the contract and return it to us at:

_____. If you have any questions about this matter, please contact _____ at _____.

Sincerely,

Title

Buyer

Date

Buyer

Date

Form continues on next page with Seller's Acknowledgment

Disclosure to Seller with Voluntary, Arm's Length Purchase Offer (Page 2)

Acknowledgement

As the Seller I/we understand that the (affiliation and title of inspector) will inspect the property for health and safety deficiencies. I/we also understand that public funds may be involved in this transaction and, as such, if the property was built before 1978, a lead-based paint disclosure must be signed by both the buyer and seller, and that a Visual Assessment will be conducted to determine the presence of deteriorated paint.

As the Seller, I/we understand that under the (City's or County's) program, the property must be currently owner-occupied, vacant for four months at the time of submission of purchase offer, new (never occupied), or renter purchasing the unit. I/we hereby certify that the property is:

Vacant at least 4 months; Owner-occupied; New; or Being Purchased by Occupant

I/we hereby certify that I have read and understand this "Declaration" and a copy of said Notice was given to me prior to the offer to purchase. If received after presentation of the purchase offer, I/We choose to withdraw or not to withdraw, from the Purchase Agreement.

Seller

Date

Seller

Date

Attachment G – Program Loans funded with 1993 HOME grant

The City of Arcata currently offers the 1993 refinance option to borrowers who received a First Time Homebuyer (FTHB) loan under the 1993 HOME grant. This refinance option will continue to be offered through June 30, 2008. After this date, the refinance option will not be available. The refinance option was implemented to offer borrowers a fixed monthly payment, relieve the administrative burden associated with the annual income re-certification, and make the 1993 FTHB Loans consistent with current loan terms. The refinance restructures the loan payments, increasing the scheduled monthly payment based on the total amount due at the time of the refinance.

The new monthly payment for borrowers who have not refinanced by the June 30, 2008 deadline would increase to the point that the required payment would no longer be affordable to a low-income borrower. Therefore, the refinance option would not be viable for existing borrowers.