

# CITY OF PATTERSON



## FIRST-TIME HOMEBUYER PROGRAM

2021

City of Patterson

# First Time Home Buyer Program Guidelines

The City of Patterson First Time Home Buyer program (FTHB) is designed to provide silent second mortgages to eligible low and very-low income families for assistance in purchasing a qualified house.

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## **APPLICANT ELIGIBILITY**

## Maximum Income

Maximum family income from all sources must not exceed 80% of median income adjusted for family size as defined by HUD. The income limits in place at the time of loan approval will apply when determining the applicant income eligibility. The current income eligibility limits for low-income households are:

1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7 Persons	8 Persons
\$39,950	\$45,650	\$51,350	<b>\$57,050</b>	\$61,650	\$66,200	\$70,750	\$75,350

These limits are subject to change.

## Determining Homebuyer Income

Projected annual gross income of the household will be used to determine whether or not a participant is above or below the published HUD income limit. All members of borrower's and/or co-borrower's families who are over 18 and living in the house must provide documentation of income. Persons, who are co-borrowers not living in the house, will not be required to submit income and their income and that of their family will not be included in the final income determination but such units must be certified for owner occupancy on an annual basis.

Income will be documented by reviewing tax returns, pay stubs, subsidy checks or bank statements, and/or third party verification of employment forms sent to employers of all adults in the family. All documentation will be kept in the participant file and held in strict confidence.

### Buyer Contribution

The buyer will contribute a minimum of 1% of the purchase price of the house towards the down payment. This down payment requirement is in place even if the first lender has lower down payment requirements.

## Home Ownership Training

The applicant will complete a City approved homebuyer-counseling course.

## Previous Ownership

An eligible homebuyer means an individual or individuals who have not owned real property within the last three years. Documentation of homebuyer status will be required for all borrowers. This will not apply to co-borrowers on the loan who will not be living in the house. The following individual(s) 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 of 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.

### **Applicant Location**

Preference may be given to applicants who live within the city limits of Patterson, live within the Sphere of Influence of the City of Patterson, or work within the city limits of Patterson for the last six months.

### **Debt Ratios**

The City wants to assist as many families as possible and therefore will provide the minimum assistance necessary to each qualified family. Consistent with this intent the City requires a minimum front debt ratio:

*Front Debt ratio:* A Minimum front ratio of 29% and will consider a maximum front ratio of 35% with reasonable compensating factors. This ratio is a percentage of the borrower's gross monthly income (before income taxes) that would cover the cost of PITI (Mortgage Principal Payment + Mortgage Interest Payment + Property Taxes + Homeowners Insurance).

*Back debt ratio:* The program allows a Back of 41% and will consider a ratio up to 45% with reasonable compensating factors. (The back ratio is the percentage of a borrower's gross monthly income divided by the new PITI (Principal, Interest, Taxes, and Insurance) mortgage payment and all other minimum monthly payments from the applicant's liabilities.

### **Conflict of Interest**

No member of the governing body of the locality and no other official, employee, or agent of the city government who exercises policy, decision-making functions, or responsibilities in connection with the planning and implementation of the FTHB program shall directly or indirectly be eligible for this program, unless the application for assistance has been reviewed and approved according to applicable California Department of Housing and Community Development (HCD) guidelines. This ineligibility shall continue for one year after an individual's relationship with the city ends.

## **PROPERTY ELIGIBILITY**

### **Location**

Only properties within the city limits of Patterson will be eligible.

### **Property Types**

Eligible properties include: Single family detached units, condominiums, townhouses, halfplexes, or manufactured homes. The loan can be applied to existing or new construction projects. No more than 15% of the home can be used for business purposes. Units must be in compliance with local zoning ordinances. These funds will not be used to assist a family to buy a unit if doing so will create over crowding conditions.

### **Property Condition**

Eligible housing units must not have code-related deficiencies at the time of occupancy or must be clear of any deficiencies within six months of close of escrow. Any units requiring repairs will be re-inspected prior to close of escrow to ensure completion of repairs.

### **Current Property Occupancy**

The City will not pay relocation expenses for a tenant. If applicable, this factor must be disclosed to the seller prior to execution of a purchase contract. Therefore, the property to be purchased must be occupied by the owner/seller, vacant, or occupied by the borrower (i.e., tenant purchase). The property will be ineligible for the FTHB program if it has been tenant occupied within the last 3 months from the time the buyer(s) execute the original contract of sale or if a tenant(s) has been asked to vacate the property in order to accomplish the sale. Previously rented property not occupied by the borrower will only be considered if documentation is supplied proving that the property has been vacant for 90 days or more prior to initial contact with the seller.

### **Purchase Price**

In accordance with HUD FHA 203(b) mortgage limits, the current maximum purchase price of the home is \$404,000. This amount is subject to change.

### **LOAN DETAILS**

A maximum \$100,000 loan will be issued to cover the down payment. On a case by case basis, non-recurring closing costs for up to three percent of the purchase price may be included in the FTHB loan. Non-recurring costs include closing costs, inspection fees, credit reports, and report and title report and title insurance, title updates, and/or other related costs.

The FTHB loan is a secondary loan. The city's loan will not be larger than the original first loan. The first loan shall bear a fixed interest rate for a term of not less than 30 years. "Buy-downs" and variable interest rate loans shall not be permitted in conjunction with this program. All loans provided by the City to assist the FTHB Program will be secured by a recorded deed of trust on the real property that is to be purchased. The loan is not assumable. Subordination shall not be allowed. The maximum amount of the first loan must be used before the FTHB loan can be utilized.

The FTHB loan consists of two parts:

#### **Part One:**

A maximum \$56,000 loan –deferred for the first 5 years and amortized over the next 25 years at 3% interest. This portion of the loan will be interest free for the first 5 years (60 months). Interest on the loan begins to accrue in the sixth year of the loan's life at 3% amortized over following 25 years. During the first five years of the loan, participants shall make monthly payments of 1% annually of the loan amount. These payments will be credited towards payment of the principal of the City loan.

If the borrower sells, rents, refinances (except to get a lower interest rate), or the home is no longer the principle residence, the remaining amount of the principle, plus any unpaid interest falls due.

**Part Two:**

A maximum \$44,000 loan – This portion of the loan will remain interest free during the life of the loan. If the borrower lives in the home for the full life of the first mortgage (30 years), the loan will be forgiven. If the borrower sells, rents, refinances (except to get a lower interest rate), or the home is no longer the principle residence, the full amount of the principle of the loan falls due. In addition, the borrower will pay 2% simple interest or a proportional amount of the home’s appreciated value, whichever amount is greater.

Any loan amount up to \$56,000 will be subject to Part One. Any loan amount above \$56,000, up to \$100,000 total, will be subject to Part Two.

**Example:**

If the initial purchase price of the home was \$200,000, the FTHB loan amount was \$62,000, and the borrower sells the home for \$300,000 after 20 years:

Initial purchase price of home:	\$200,000
FTHB Part One amount:	\$42,000
FTHB Part Two amount:	\$20,000
Total FTHB loan amount:	\$62,000
FTHB Part Two proportion of total:	10%
Sale price:	\$300,000
Amount of appreciation:	\$100,000
Proportional amount of appreciation:	\$10,000
2% simple interest:	\$8,000

Proportional amount is greater so use:	\$10,000
Plus the original Part Two principle amount:	+ <u>\$20,000</u>
Total Part Two amount due to City:	\$30,000

Any remaining Part One principle and payments will also be due.

The loan will be in default if the borrower fails to pay property taxes or fails to maintain required fire and/or flood insurance. Early repayment is permissible with no penalty.

Deeds of Trust and Promissory Notes will secure both the first mortgage and the FTHB loan. A combination of the first mortgage and the FTHB loan shall not exceed 100% of the value of the property.

**Monitoring**

To ensure the buyer(s) occupancy in the home, the buyer will be required to mail a copy of their December Utility Bill to the City each year. In addition, Sewer and Water accounts for the property will be flagged for participating properties. If the name changes on the sewer and water accounts or the Utility Bill, City Staff will be notified.

**DESCRIPTION OF SELECTION PROCESS**

1. Applicant picks up a ‘Program Interest Form’ from the City, completes the form, and returns it to the City. City staff will review the form for initial eligibility and forward it to the Consultant. No application fee will be required.

2. The Consultant determines the eligibility of the applicant according to current income limits.
3. Consultant sends a letter to each eligible applicant. The letter explains the step by step process for participation. All applicants are encouraged to call the Consultant if they have any questions.
4. The applicant should then work with a reputable lender to secure a first mortgage. The lender will confirm the need of the applicant for the FTHB loan. In addition, the applicant will complete a City-approved home buyer-counseling course.
5. The applicant must need the assistance of the program to obtain home ownership. Such need will be determined by the Consultant, and be based upon program procedures, the requirements of the primary lender, and the ability of the household to meet such requirements.
6. Once the applicant has been found eligible for the FTHB program, has secured a first mortgage, and completed a home buyer-counseling course, the applicant will have a 90-day secure period on the FTHB loan on a first-come first serve basis. At the end of the 90-day period, the next applicant who has met the above standards will be given a 90-day secure period on the FTHB loan.
  - a. If a group of persons are all qualified at the same time, they will be placed on a list and entered in a lottery for homebuyer slots. A number will be chosen at random for each of the homebuyers. The applications will be processed according to the number assigned.
7. The applicant will pay the lender approximately \$50.00 (non-refundable) for a credit report and the lender will calculate the price range the Buyer can afford. The lender will then direct the applicant to a Realtor to find a home, write a contract, and begin the loan process.
8. Prior to making an offer to purchase, the buyer shall be provided with a statement of the required disclosures.
9. Participants in the program may then make an offer on a home that meets program requirements. Real estate purchase agreements must contain a 17-day right of rescission to review the results of all inspections.
10. All necessary inspections shall be made. The review committee, consisting of the Housing Program Coordinator, the Finance Director, and the Community Development Director or his designee will review the applicant and property information for compliance with program requirements.
11. A final closing date for escrow is set and the City will draw a check for the FTHB loan, which will be picked up by the Escrow Company.
12. The escrow agent prepares the City documents for execution and recording.
13. Escrow closes, documents are recorded, and information will be forwarded to the City within 14 days for filing.
14. Applicants may move into their home.
15. Consultant sends the City a completed loan package for the City's file.
16. Consultant assists City staff with the setup of a monitoring procedure for annual review to confirm the grant recipient's conformance with the terms of the loan.
17. The City Finance Department reports the loans on an annual basis to the IRS.

## **COMPLAINT AND APPEAL PROCEDURE**

Any person/family applying for the homebuyer program has the right to appeal if their application is denied. The appeal must be made in writing. Complaints concerning the FTHB program should be made to the City within fifteen days of decision date. City/County staff has 30 days to review the appeal, seek recommendations from the review committee, and respond in writing to the applicant. If the applicant is not satisfied with the Committee's decision, a request for an appeal may be filed with the City Council.

## **REVIEWS, DISCLOSURES AND NOTIFICATIONS**

Upon selection of a property, a qualified seller and buyer must be given the necessary disclosures for the program. The borrower must have read and signed all program disclosure forms. Any and all property disclosures must be reviewed and signed by the buyer and seller.

Real estate purchase agreements must contain a 17-day right of rescission to review the results of all inspections. Participants will be required to select and pay for inspections up front. Participants will be reimbursed at escrow, with the cost of the inspection included in the FTHB loan. Reimbursements for any professional inspection shall not exceed \$300. If escrow does not close, the City will not reimburse the participant, home inspector, or other party for the cost of the home inspection fee. The following inspections may be required before the FTHB loan is disbursed:

- Real estate appraisal
- Professional home inspection
- Code Compliance
- Pest Inspection
- Lead-based paint inspection – for homes built prior to 1978

### **Real Estate Appraisal**

The seller and buyer will be given an estimate of the fair market value of the property. The buyer's agent based on their knowledge of the local real estate market may make this estimate and a professional appraiser will later determine fair market value.

### **Professional Home Inspection**

#### **Code Compliance**

To determine compliance existing homes will be inspected by either a FHA inspector as a lender requirement, and/or by the City Building Department. The house shall meet as a minimum requirement all applicable local codes and health safety standards.

#### **Pest Inspection**

A licensed inspector will perform a pest inspection of the property.

#### **Lead-Based Paint**

If the property is eligible and was built prior to 1978, a Certified Risk Assessor/Inspector must inspect the house for lead-based paint. A certified lead



base paint inspector will conduct a “visual assessment” of all painted surfaces in the unit and ensure that all federal lead base paint procedures, including any abatement, are followed. Any requirement for lead base paint testing and/or required abatement must be completed prior to investment of FTHB funds.

Prior to making an offer to purchase house constructed before 1978, the Buyer will receive proper notification of lead-based paint hazards.

**Other Disclosures**

The buyer has no power of eminent domain and, therefore, will not acquire the property if negotiations fail to result in an amicable agreement.

**Fire Insurance**

The owner shall maintain fire insurance on the property for the duration of the loan. This insurance must be an amount adequate to cover all encumbrances on the property. The insurer must identify the City as Loss Payee for the amount of the loan. The applicant will have 90-days after close of escrow to provide the City with proof of insurance.

**Flood Insurance**

In areas designated by the U.S. Department of Housing and Urban Development as flood prone, the owner is required to maintain flood insurance in an amount adequate to secure the FTHB loan. The policy must designate the City as Loss Payee for the amount of the loan. The applicant will have 90-days after close of escrow to provide the City with proof of insurance.

**EQUAL HOUSING STATEMENT**

The City of Patterson is a strong supporter of the Affirmative Fair Marketing legislation and requires that all Real Estate firms, Lenders and Escrow Companies display the Equal Housing Logo in the advertising and at their place of business.

**NOTICE**

The City of Patterson is aware that most first time homebuyer households are not familiar with the terminology used in the real estate, lending, and building industries. All Builders, Lenders, and Realtors will make full disclosure of all costs, fees, assessments, and the terms and conditions of the purchase prior to obtaining signatures. All advertising shall include the total cost to the Buyer. Any Builder, Lender, or Realtor found to be using deceptive practices or misleading advertising will not be allowed to participate in the program.

