



CHULA VISTA FIRST-TIME HOME BUYER PROGRAM MANUAL & GUIDELINES

CITY OF CHULA VISTA
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Chula Vista, CA 91910

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PURPOSE OF THE PROGRAM MANUAL

The purpose of this Program Manual is to describe the City of Chula Vista HOME First-Time Homebuyer (FTHB) Program requirements, processing procedures and program administration. Loan processing forms are contained in a separate document. The City may revise these guidelines from time to time, terminate and/or place the program on hold at the City's sole discretion.

The City encourages all eligible homebuyers to apply. Participating lenders are expected to be well informed about all the restrictions contained in this manual so that both applicants and sellers are aware of these restrictions before the application is accepted. The Program Manual serves as a guide, all final approvals and interpretation of the regulations are at the discretion of the City's Housing Division. The City is currently funding the First-Time Homebuyer Program using City Balanced Communities Program, CalHOME and Home Investment Partnership (HOME) funds. Lenders are also expected to be informed of HUD's Technical Guide for Determining Income and Allowances to determine income since the City is using 24 CFR Part 5 to calculate household income. The Program Administrator/City will reject those applications where the information submitted indicates that the applicant does not qualify for the program.

GENERAL DEFINITIONS

AFFIDAVIT: A deposition filed in connection with the program made under oath and subject to penalties of perjury.

AFFORDABILITY PERIOD: The use of Chula Vista First-Time Homebuyer Program require that the property remain affordable for a period no less than thirty (30) years as recorded through the HOME Promissory Note, Deed of Trust, and Regulatory Agreement or at time of sale or transfer, as approved by the City of Chula Vista. However, the loan term for repayment is 30-years. Once the City's loan is repaid (Principal and Interest) the restrictions are released.

APPLICANT: Any person within the household whom applies for City loan assistance.

ARMS LENGTH TRANSACTION: A transaction in which the buyers and sellers of a product act independently and have no relationship to each other. The concept of an arm's length transaction is to ensure that both parties in the deal are acting in their own self-interest and are not subject to any pressure or duress from the other party.

ASSETS: Cash or a non-cash item that can be converted to cash. Assets exclude necessary personal property.

BORROWER: Any person meeting the criteria as set forth in this manual.

CITY: The City of Chula Vista Housing Division of the Development Services Department.

COMMITMENT: A document which is originated by the Program Administrator once a purchase contract has been approved and shall be valid for 60 days.

ELIGIBLE DWELLING: Real property located within the City of Chula Vista. The unit must be designed as a residence for one household and must meet property standards and criteria as set forth in this manual with no outstanding civil penalties against the property.

Balanced Communities PROGRAM (BCP): The City's First-Time Homebuyer Program utilizes the City of Chula Vista Balanced Communities Program goals and objectives.

HOMEOWNER INVESTMENT: Homeowner's initial down payment. A minimum of three percent is required (seasoned funds).

HOUSEHOLD: All persons who have resided together for at least 1 year (except in the case of a newborn child) and will continue to reside in the residence being purchased and function as a cohesive unit.

INCOME: The gross amount of all income for all mortgagors and adult household members that is anticipated to be received during the coming twelve (12) months, as defined in 24 CFR Part 5. All income derived from any source, including income from wages (gross pay), overtime, pensions, veteran's compensation, bonuses, public assistance, alimony, income, dividends and interest, etc. must be included.

ISSUER: City of Chula Vista through the Housing Division.

LENDER: A financial institution, whether broker, retail, or wholesale, licensed to provide mortgage loans in the State of California. The institution must meet all the requirements established by the City in order to participate as a lender in the City program.

LOAN: An extension of credit provided to an Eligible Borrower to finance the purchase of an Eligible Dwelling.

LOW-INCOME: A household with income not greater than 80% of the median income as established by the U.S. Department of Housing and Urban Development (HUD)/Department of Housing and Community Development. Every 12-18 months, these figures are updated by HUD.

LIQUID ASSETS: The total amount of funds that are in the form of cash or can quickly be converted to cash. These include (1) cash; (2) demand deposits; (3) time and savings deposits; and (4) investments (i.e. most stocks, money market instruments and government bonds) capable of being quickly converted into cash without significant loss, either through their sale or through the scheduled return of principal at the end of a short time remaining to maturity.

NET PROCEEDS: Sales price minus loan repayment and closing costs.

OWNERSHIP INTEREST: Any of the following interests in residential property: fee simple interest; joint tenancy; tenancy in common; interest of a tenant-shareholder in a cooperative; life estate; interest held in trust for the Applicant that would constitute a present ownership interest if held by the Applicant. Ownership interest may not exceed 1/12th interest.

PRE-COMMITMENT: A document which is originated by the City of Chula Vista and issued through the Program Administrator based on preliminary review of the application package and lender's certification that the requirements necessary for issuance of a City loan have been met. A pre-commitment of funds will be valid for 60 days. An extension of an additional 30 days may be granted under extenuating circumstances at the sole discretion of the City.

PRINCIPAL RESIDENCE: Residence must be occupied as the primary home of the buyer and be defined as one of the following types of residences: 1) single-family house; 2) condominium unit; 3) town home unit.

PROHIBITED MORTGAGE: Second mortgages and any liens superior to the City First-Time Homebuyer loan(s), other than the new first Trust Deed.

PROGRAM ADMINISTRATOR: As of July 1, 2022, the San Diego Housing Commission (the "Program Administrator") administers the City's First-Time Homebuyer Program, including but not limited to review of all income documentation, eligibility determinations, set-up, underwriting, and loan document preparation of the City's second loan. The Program Administrator has authority to request any additional required documentation to ensure program compliance. The Program Administrator may consult with the City of Chula Vista's Housing Division for Technical Assistance.

PROPERTY STANDARDS: Minimum performance standards a property must meet for program eligibility.

PROPERTY VALUE: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Property/market value must be identified through an appraisal and provide to the Program Administrator prior to the City's Voluntary Acquisition issuance.

PURCHASE PRICE: Cost of acquiring the residence, excluding usual and reasonable settlement or finance costs, and the value of services performed by mortgagor in completing the acquisition.

RELATED PERSON: Allied by nature, origin, kinship, marriage, etc.

RESIDENTIAL PROPERTY: Property which is zoned for single-family homes, multi-family apartments, townhouses, and/or condominiums. Interest in residential property may not exceed 1/12th for time share arrangements.

SINGLE-FAMILY RESIDENCE: Housing unit intended and used for occupancy by one household.

VOLUNTARY ACQUISITION: A requirement of Home funds is to provide notification to the seller of their rights as described in compliance with federal regulations.

SECTION I: FIRST-TIME HOME BUYER PROGRAM

The 3% Interest Deferred Payment Loan Program is a homeownership assistance program designed to make funds available to low-income households, to help with the purchase of a home within the City of Chula Vista. The program provides financing in the form of a silent second trust deed loan of up to 22% of the purchase price or appraised value, whichever is less, to households earning up to 80% of the San Diego County Area Median Income (AMI). The amount of assistance will be based on the borrower's verified need and will be calculated based on a 45% debt-to-income ratio. This loan accrues interest at a rate of 3% simple interest and cannot exceed \$120,000. The principal and all accrued interest will be due in full upon the earlier of:

- 30 years from the date of the promissory note.
- Upon sale.
- Transfer of title.
- Leasing/renting of the property.
- Non-owner occupancy of the property.
- Further encumbrance, such as HELOC, cash-out refinance, a HERO loan, etc., of all or any interest in the property without the City of Chula Vista's prior written consent
- Uncured default by borrower on the 1st Trust Deed Note.
- Discovery of willful misrepresentation of fraud in connection with any aspect of the First-Time Homebuyer Program

SECTION II: BORROWER ELIGIBILITY REQUIREMENTS

Both federal and state law sets borrower eligibility requirements. Income guidelines are modified based on federal and state directives every twelve to eighteen months. The City will notify the Lenders when those changes take place, including the effective date of each change.

In an attempt to assure that all requirements are clear, the First-Time Homebuyer Application and Affidavit are required to be signed by each Applicant and must be included in the Application Package submitted to the Program Administrator.

A. ELIGIBLE BORROWERS

1. Qualified applicants must be first-time homebuyers. The Applicant may not have held an ownership interest (that exceeds 1/12th) in Residential Property within the past three years. This timeframe includes those 36 months previous to the date the mortgage is executed. In the case of a married couple, both parties must meet this requirement. The

buyer, spouse and any other parties who will reside in the property must meet this requirement. The Lender must verify this through his/her examination of the Applicant's federal tax returns for the preceding three years, credit reports, and other relevant documentation. The Applicant(s) cannot have claimed a deduction for mortgage interest or taxes on real property.

2. To demonstrate compliance with this requirement, Applicants must complete and sign the First-time Homebuyer Application and Affidavit and provide copies of their last three (3) years signed federal tax returns (or acceptable alternative exhibits).
 - a) The Applicant(s) can provide the signed 1040A, 1040EZ, or 1040 federal income tax forms for the preceding years, including all schedules. These forms shall be submitted to the Lender and forwarded to the City with the completed loan application. The tax returns must be signed and dated in ink by the Applicants.
 - b) If the Applicant(s) has/have filed the short form, 1040A or 1040EZ for the last three (3) years, completes and signs the required affidavits, but is unable to produce copies of the signed returns, the City will accept a completed copy of IRS Letter Form 1722 in lieu of actual returns. The Applicant may request this letter, free of charge, from the local IRS Office. The Letter 1722 must include the signature of a representative of the IRS. Letter Form 1722 should include the following information:
 - i. Name and social security number
 - ii. Type of return filed
 - iii. Marital status
 - iv. Tax shown on return
 - v. Adjusted gross income
 - vi. Taxable income
 - vii. Self-employment tax
 - viii. Number of exemptions
 - c) In the event the Applicant(s) or any adult household member (excluding dependents listed on another household member's Tax Return) was not obligated to file federal income tax returns for any of the preceding three (3) years, it will be necessary for the Lender to obtain a completed and signed IRS Form 4506-T from the Applicant or any adult household member, which is required in place of the above. This document is to be forwarded to the City with the application package.
 - d) If neither copies of the required tax returns or the 1722 Form can be obtained, the Lender may be able to help the Applicant establish first-time homebuyer status with copies of utility bills and a signed and notarized statement from the Applicants landlords for the previous three years.
 - e) When the Commitment is issued during the period between January 1 and February 15 and the Applicant has not yet filed his/her/their Federal Income Tax

Return for the preceding year, the City may rely on an affidavit. The affidavit must affirm that the Applicant is not entitled to claim deductions for taxes or interest on a principal residence for the preceding year. After February 15, a tax return will be required.

3. Any Applicant with the marital status of “divorced” must provide legal documentation that specifies:
 - a) They no longer have ownership interest in any real property;
 - b) Will not be residing mutually; and
 - c) If claiming a child under the age of 18 as part of the household, legal custody of at least 50% and claim any related child support and/or income.
4. Any Applicant with the marital status of “separated” must provide the same documentation as required in A.2.
5. Upon close of escrow, the buyer must occupy the home as their Principal Residence.
6. Applicant(s) must be a U.S. citizen or Permanent Resident Alien. Applicants with a Permanent Resident Alien status must provide documentation; i.e. Permanent Resident Alien card, passport and/or INS documents. Applicants who are in the U.S. under DACA, the Dream Act or Work Visa are not eligible. A spouse and/or other household members who are not U.S. citizens or a Permanent Resident Alien can be included as household members, and must provide income, asset, tax returns, proof of residence, and credit documentation, but cannot be on the loan or on title.
7. Priority is given to current residents of the City of Chula Vista and households who are employed in businesses within the City of Chula Vista at the time of application.
8. City of Chula Vista employees (except for certain employees of the Development Services Housing Department) are eligible to participate and may require HCD approval.

B. INCOME CRITERIA

1. Income must be below 80% of the currently published San Diego County median income, adjusted for household size. Income limits have been established by the U.S. Department of Housing and Urban Development (HUD) and published by HUD and the State of California Department of Housing and Community Development (most restrictive may apply) and are adjusted annually. In accordance with this requirement, applicants may not obtain “stated income” loans. The true income must be a qualifying factor in loan approval.

| Household Size | 80% Annual Income |
|----------------|-------------------|
| 1 person | \$77,200 |
| 2 people | \$88,200 |
| 3 people | \$99,250 |
| 4 people | \$110,250 |
| 5 people | \$119,100 |
| 6 people | \$127,900 |
| 7 people | \$136,750 |
| 8 people | \$145,550 |

Effective: June 15, 2023

2. Gross income includes all sources of taxable and non-taxable income, derived from: salary, base pay, overtime and/or double-time compensation, part-time earnings, bonuses, commissions, dividends, interest, royalties, pensions, veterans administration compensation, alimony, child support, survivor benefits, foster care support, adoption care support, public assistance, social security benefits, unemployment compensation, income received from a trust, income received from business activities, bank accounts, investments, recurring contributions or gifts regularly received from entities or persons not residing in the dwelling, and any other source of income not listed above.
 - The *eligibility* calculation represents income of all adult household members regardless of the length of employment.
 - The *underwriting* calculation represents income for all borrowers who will be on title and have minimum two years' work history

The lender bears the burden of proving the borrower's income is within the program guidelines before submission to the Program Administrator. The computation should be clear, complete, and documented by third party verifications to the greatest extent possible. The Program Administrator will do a full underwrite of the file and use its own income calculation independent of the 1st lender's income calculation.

Documentation regarding income must cover a minimum of two months and must be current within the most recent 30-day period preceding the loan closing. See each income type section below for required documentation.

Non-disclosure of any material fact or misrepresentation of information will result in permanent disqualification of the borrower and/or loan officer.

The Program Administrator, _____ at its sole discretion, reserves the right to request any supporting documentation necessary to accurately calculate the

household income and may use alternative methods for calculating income based on information and documentation available.

Cooling Off Period for Declined Applications

If an application is declined for exceeding the income limit, there will be a 12-month cooling off period before a new application will be accepted.

One exception to this “cooling off” period is when HUD increases the program income limit. If the new income limit is higher than the declined borrower’s income, the borrower can apply again without having to wait 12 months.

The household members and income sources must be the same at the time of re-application. A change in employers may be acceptable; however, a loss or reduction of income that would otherwise have put the household over the income limit will not be accepted. The Program Administrator, at its sole discretion, reserves the right to refer to the original application to confirm consistency.

Income for Program Eligibility

For the purpose of determining program eligibility, all income of all household members over age 18 is included, regardless of whether or not they will be a borrower. All income is counted even if there is less than a two-year history. The household’s income must be projected as an annual income. The income from employment that ended within 6 months of the application date will be counted for eligibility purposes if it was not replaced by new verifiable employment. Every source of taxable and non-taxable income must be listed on the application and proof of such income be provided.

Income on assets is included when the household’s total assets, including retirement accounts, exceeds \$5,000 after their down payment and closing cost contribution to the transaction. Income on assets is calculated by multiplying the total assets by the passbook savings rate (currently .06%). The product is added as an annual amount to the household income.

All households must be income-qualified as of the date of the close of escrow.

Income for Underwriting Debt Service

Income that meets satisfactory work history requirements for all borrowers who will be on title, including any non-borrowing spouse (if applicable), will be included in the calculation of underwriting income.

In order to include income for underwriting purposes, the borrower must have a current two-year consecutive work history.

Employment Gap

A gap in employment of no more than 6 months may be accepted. The borrower must be able to document a strong work history with at least two years consecutive employment prior to the gap and must have returned to work for at least 1 year.

A transition between employers where the end date with the past employer and the start date with the new employer do not exceed 1 month is accepted. Verifications of employment and employment offer letter are required and be supported by the pay stubs received since the start date with the new employer.

2nd Job

In order to use income from a 2nd job, a two year history of working two jobs is required.

CALCULATING INCOME

W-2 Employees

The Program Administrator will review the income documentation to determine the appropriate method for calculating income. Factors for determining the appropriate method include consistency in the number of hours worked, increases in pay rate, fluctuations in pay, leave of absences i.e. disability, maternity leave, paternity leave etc.

For borrowers who consistently work 40 hours per week, the base pay will be calculated by multiplying the hourly rate by the number of hours, then by the number of pay periods and divided by 12 months. Example $(\$25.46 \times 80) \times 26 = \$52,956.80 / 12 = \$4,413.06$ monthly.

If the borrower does not consistently work 40 hours per week, the base pay will be averaged over the previous year, plus current year-to-date income. If the borrower's income increased due to a change in their hour rate, their number of hours worked, or new employment, the income will be averaged from the date of the change through the current pay period. Please note, the average is done using the check date, rather than the pay period end date.

Flex Pay for Benefits

Any portion of employer paid flex credits not used for medical, dental or vision premiums received by the borrower as compensation is included in the income for eligibility and underwriting. The number of pay periods that flex credits are paid must be verified by the employer.

Overtime, Double-Time, Commissions, and Bonuses

An average over the previous year and current year-to-date is used for calculating for overtime, double-time, commissions, and bonuses etc. SDHC may consider averaging over two years plus year-to-date if borrower provides supporting documentation from their employer to justify a longer averaging period.

A two-year history is required in order to use the income for underwriting. If with the current employer for less than two years, overtime, double time, commissions, and bonuses may be used if the applicant can document a two-year history of earning these sources of income with previous employer(s). If the borrower had an increase in overtime, double-time, commissions, or bonus income, the income will be averaged from the date of the change through the current pay period.

Declining Income

Calculating declining income is determined on a case-by-case basis and requires substantial supporting documentation.

Seasonal Employees

The income for seasonal workers is calculated by averaging the previous two years income as stated on the W-2 and verification of employment. For unemployment benefits received in the off season of work, the gross income will be calculated by averaging the previous two years benefits. If in the off season during the period of application, proof of unemployment benefits must be provided.

Military Pay

The "total entitlement" shown on the borrower's most recent monthly leave and earnings statement, including all regular pay, special pay and allowances including housing allowance is included. The "total entitlement" is **not grossed up**. Certain categories of pay, which may be received only sporadically, will be considered on a case-by-case basis. The special pay to a family

member serving in the Armed Forces who is exposed to hostile fire is *excluded* from gross income calculation.

Required Documents for W-2 Employees

1. Paystubs for the most recent 2 months. Must be updated throughout the transaction.
2. The last pay stub from the previous 2 calendar years (only required if currently with the same employer)
3. W-2s from all employers in the last 2 years
4. Verification of Employment (VOE) for all employers in the last 2 years. VOE to include the following details:
 - a. Start Date of Employment
 - b. Current pay rate
 - c. Date of last pay increase
 - d. Number of hours worked per pay period
 - e. Date range of any leave of absence
 - f. Breakdown of income for previous two years and year-to-date

Self-Employed

The income for self-employed borrowers is calculated by averaging the previous two years adjusted gross income as per the Federal Tax Returns. Any depreciation, depletion or non-monetary expenses i.e. business use of home will be added back to the adjusted gross income. Income will be averaged over two years even in the case of declining income.

For eligibility purposes, if self-employment started during the application year, and the tax return is unavailable, a year-to-date profit and loss statement with supporting documentation for business revenue and business expenses are required. Supporting documentation includes but is not limited to bank statements that supports the gross earnings, documentation of wages and payroll expenses, receipts for expenses etc. Failure to provide proof of gross earnings and receipts for expenses will result in the gross amount of income documented by the bank statements being counted as the self-employment income.

For underwriting purposes, the borrower must have a documented minimum two year history as self-employed.

Required Documents for Self-Employed Borrowers

1. 3 years Federal Tax Returns including all filed schedules.
2. Signed and dated profit and loss statement for current year-to-date business activity. The P & L can be prepared by the applicant or an Accountant.
3. 12 months of bank statements. The bank statements will be reviewed for consistency with gross receipts and business expenses filed on the Federal tax Returns. Deposits without a reasonable and/or verifiable explanation will be included as income.

Child Support / Spousal Support

Child support documentation is required when there are minor children in the household of an applicant who is a single parent or when there are minor children in the household from a previous relationship.

Child / spousal support as dictated per the support order will be used except when support is not paid per the support order in which case a 12-month average based on the proof of payments will be used.

For eligibility purposes, child support / spousal support will be included if it will continue for 12 months or more. To be used for underwriting purposes, support must continue for at least 3 years.

Required Documents for Support

1. A copy of the child / spousal support order.
2. Proof of payments covering the most recent 12-month period. Acceptable proof of payment includes 12-month bank statements, 12 months cancelled checks or a 12-month history from the borrower's department of child support services account.
3. If borrower states no child support is received, borrower to provide:
 - a. A letter of explanation and;
 - b. A letter from the Department of Child Support services showing there is no open support case is required.
 - c. **Social Security, Social Security Disability, VA Disability**

The full monthly benefit before deductions will be used. The amount is not grossed up.

Disability income must be a permanent source of income in order for it to be used for underwriting purposes. If disability income will end within 12 months, it will be excluded from the eligibility income.

Required Documents for Social Security, Social Security Disability, VA Disability

- 1) Most recent award letter

Adoption Assistance or Foster Care Income

Income from adoption assistance or foster care is included for the purpose of determining eligibility if it will continue for 12 months or more and may be used for underwriting purposes if the borrower has a consecutive two-year history of receiving such income and can document the income will continue for at least three years.

If the borrower has a history (two or more years) of receiving adoption assistance or foster care support, the income may only be excluded from the eligibility income if sufficient documentation is provided showing the income has ended or will end within 12 months. SDHC, at its sole discretion, reserves the right to determine what documentation is acceptable.

Required Documents for Adoption Assistance or Foster Care Income

1. Current award letter
2. Supporting documentation to show the history of payments received within the last two years.

Unemployment

All borrowers must be employed at the time of application with a minimum 2-year work history and no more than a 6 month gap in employment.

For non-borrowing household members receiving unemployment benefits at the time of application, SDHC will require employment and income documentation from the previous employer to ensure the household would have been under the income limit despite the loss of employment.

Unemployment benefits will be included in the household eligibility.

Required Documents for Unemployment

1. Notice of Unemployment Insurance Award

No Income

Adult household members, 18 years and older, who have no income must provide supporting documentation to show that no income from any source is received.

Required Documentation for No Income

- 1) Signed Declaration of No Income
- 2) Bank statements covering most recent three-month period. Deposits must be documented.
- 3) Federal Tax Returns or 4506 results showing no tax returns were filed.
- 4) Verification of Employment if previously employed.
- 5) Backup showing whose dependent they are and how they support themselves.
- 6) If of retirement age, a letter from Social Security showing no benefits are paid.
- 7) Any other documentation the underwriter considers applicable.

No Income

Adult household members, 18 years and older, who have no income must provide supporting documentation to show that no income from any source is received.

Required Documentation for No Income

- 1) Signed Declaration of No Income.
- 2) Bank statements covering most recent three-month period. Deposits must be documented.
- 3) Federal Tax Returns or 4506 results showing no tax returns were filed.
- 4) Verification of Employment if previously employed.
- 5) Backup showing whose dependent they are and how they support themselves.
- 6) If of retirement age, a letter from Social Security showing no benefits are paid.
- 7) Any other documentation the underwriter considers applicable.

Full Time Students

Adult members (ages 18 - 23) enrolled in a vocational, community college, or a university must provide evidence of enrollment status. For the purpose of determining eligibility, only the first \$480 of the full-time student's *annual* income is included. Full time is current enrollment in 12 or more units.

The \$480 limit does not apply to a student who is not a full-time student (< 12 units) or who is the head of household or non-borrowing spouse, in this case the full income must be counted.

If the dependent student attends school out of the County of San Diego and/or lives on campus, they will not be counted as part of the household.

Required Documents for Full Time Students

- 1) SDHC School Enrollment Form completed and signed by the school
- 2) Confirmation of enrollment / Class schedule for the current semester

TAX RETURNS

All household members over the age of 18 must provide Federal Tax Returns including all schedules for the most recent three years or provide IRS Form 1722 “Verification of Non-Filing” for any year in which taxes were not filed. The tax returns must be signed and dated.

If any household member is unable to produce copies of their tax returns, SDHC will accept the Wage and Income Transcript.

When applying during the period between January 1 and February 15 and the applicant has not yet filed their federal income tax return for the preceding year, SDHC may rely on an affidavit. The affidavit must affirm that the applicant is not entitled to claim deductions for taxes or interest on a principal residence for the preceding year. **After February 15, the tax return for the previous year will be required for all household members over age 18.**

*Income, asset and proof of residence documentation will be required for any dependent listed on borrower’s tax returns who are not the borrower’s son or daughter.

Income Tax Affidavit

In the event the borrower and/or any household member over the age of 18 was not obligated to file federal income tax returns for any of the preceding three years, a completed and signed SDHC “Income Tax Affidavit”, Wage and Income Transcript and IRS Form 1722 “Verification of Non Filing” is required

ASSETS

Bank statements for ALL accounts covering the most recent three months are required for all household members. This includes accounts held for minors and any non-borrowing adult, Prior to submission, lender to review all bank statements provided by the borrower to check for transfers to/from other accounts for which statements were not provided.

Borrower to provide a Letter of Explanation and supporting back-up for all non-payroll deposits or large withdrawals.

C. HOUSEHOLD ELIGIBILITY REQUIREMENTS

1. Households shall have sufficient income and credit-worthiness to qualify for primary financing from a participating lender.
2. Households shall have income that is verifiable by using Third Party verification.
3. Households will be required to provide a down payment or cash investment. A minimum contribution of 3% of the total purchase price of the property will be required to participate in the First-Time Homebuyer Program.
4. Borrower’s personal funds must be used for down payment, closing costs, or cash reserves. The minimum household reserve requirement is \$1,000 at Close of Escrow. The

reserves must be from liquid assets. The maximum amount of the contribution used towards cash reserves must equal the minimum reserves required by the Lender of the first mortgage. Cash gifts up to \$50,000 may be given towards down payment assistance in addition to the 3% owner contribution, but must be identified as part of the subsidy layering analysis, *reference City of Chula Vista Application*.

5. Maximum liquid assets after FTHB assistance may not exceed \$25,000 (not including retirement accounts, i.e. IRA's, 401(k), etc). Should an applicant be over this threshold at time of application, the applicants buying power will be calculated based on the qualifying first mortgage amount plus the City's gap financing threshold minus the overage amount (thereby considering the overage as a down payment and lowering the City's gap assistance). A worksheet of all assets and income shall be included in the application package submitted to the City, reference City of Chula Vista Application.
6. The combined income of all members of the household who are currently living together as a family and will be living in the property must be included in the determination of income. The household income must be projected as annual income. All income sources must be disclosed.
7. The City of Chula Vista may require borrowers to have a minimum of \$1,000 after the 3% down payment.

D. CREDIT WORTHINESS

1. Households must have a minimum credit score of 640.
2. Borrowers with a foreclosure within the last five years must provide a letter of explanation and substantial back-up documentation as to the cause of the foreclosure.
3. A credit report for the non-borrowing spouse is required. All debt of the non-borrowing spouse will be used in the debt-to-income ratio calculations.
4. All collections and judgments must be paid in full, no exemptions
5. Bankruptcy and Foreclosures within the last **five** years will result in a denial of assistance. The five-year period begins after the final determination not the time of the initial discharge.
6. Child Support payments must be current and with no arrears.

E. ELIGIBLE PROPERTIES

1. Properties must be located within the City of Chula Vista limits.
2. Properties must be one (1) unit property that includes single-family homes, including detached homes, condominiums or townhouses. Manufactured/mobile home, duplexes, triplexes or four-plexes do not qualify as eligible properties.
3. All types of sales are eligible under the program with up to 22% of the purchase price or \$120,000, whichever is less, available in city gap Home financing is using City First-Time Homebuyer Program funds.

4. Properties cannot have any outstanding civil penalties with the City of Chula Vista (i.e. liens, code enforcement violations, other judgements).

F. MAXIMUM PURCHASE PRICE

The maximum purchase price cannot exceed \$623,200 for attached units (condominiums and townhomes) and \$855,000 for detached (single family home) units. These limits will be updated annually.

| Chula Vista First-Time Homebuyer Program Sales Price Limits <i>Effective September 2023</i> | |
|--|------------------|
| Attached Unit | \$623,200 |
| Detached Unit | \$855,000 |

G. LOAN PROCEDURES AND TERMS

1. 3% interest deferred payment loans have a term of 30 years. No monthly payments of principal or interest are required. When the buyer sells the property and wants to pay the loan in full, in addition to the principal balance, the buyer must pay all the accrued interest.
2. The Deed of Trust contains an acceleration clause, which will call the entire loan due and payable upon certain events, including the following:
 - Transfer or sale of the property
 - If the borrower no longer occupies the property
 - Discovery of willful misrepresentation or fraud in connection with any aspect of the Deferred Payment 3% interest loan program
 - Renting of the property
 - Uncured default by borrower on the first trust deed note, or deed of trust, or any other senior or junior loan or encumbrance on the property.
3. The maximum loan amount shall not exceed \$120,000 for households purchase 1 unit properties (i.e. condominiums, townhomes, or detached single family home). The total gap subsidies (inclusive of other sources beyond buyer's Funds) shall not exceed 25% of the purchase price, subject to the condition of the property, qualifying factors and staff assessment. The City loan may be used toward the required down payment, reasonable closing costs, principal write-down assistance, an interest rate buy-down or any combination thereof, but serves as gap financing and must be determined through a subsidy layering analysis, *see City of Chula Vista Application*. .
4. The maximum CLTV (combined loan to value) of the City and the new 1st Trust Deed loans shall not exceed the maximum approved CLTV required by the 1st mortgage lender.

5. No non-occupant co-borrowers shall be allowed.
6. Total housing ratio (PITI) cannot be less than 30%.
7. Total debt-to-income ratio may not exceed 45%.
 - a. All debt shall be counted, inclusive of any debt that the applicant has co-signed for or identifies as a debt being paid by another party. No exceptions can be made to these ratios. In case of a Mortgage Credit Certificate, the loan application shall include the calculations used to lower the applicant's ratios, if needed to qualify for the City's FTHB assistance.
8. No prepayment penalty allowed.
9. Maximum fees to the Applicant of 2.5% origination, discount points for below par pricing only, and \$350 processing are acceptable for the purchase transaction. No other Broker or Admin type fees allowed. Other third-party fees that are reasonable and customary are allowable, but total origination fee shall not exceed 1.5%.
10. No Origination fees may be charged to a family for the portion of the Home Homeownership Assistance.
11. Any fees and/or commissions shall be customary and reasonable.
12. The terms of the City's Home second trust deed are designed to encourage long-term residency in the program-assisted home. The loan term is 3% deferred calculated using the simple interest method.
13. The loan shall become due and payable at the time of the property's transfer of title, refinance (except as earlier defined), rental or sale.
14. Second and subsequent mortgages to the new First Trust Deed, except for this City Loan, and a City HOME Loan, are not permitted.
15. Borrower can apply for Balanced Communities Program funds, as well as City HOME Investment Partnership Act (HOME) Funds or Cal Home funds if available. However, the City reserves the right to limit the HOME and Cal Home funds. Total combined assistance shall not exceed \$120,000. Each program requires its own set of loan documents and may have different income guidelines.

16. The loan is not assumable.
17. A Promissory Note, Deed of Trust, and Covenants Conditions and Restrictions (CCRs) will secure the loan.
18. The City Loan can be used with conventional, FHA, VA, and other loans issued by a qualified lender with a 30-year fixed term.
19. The Program Administrator shall underwrite the City's loan. The City of Chula Vista Development Services Housing Division does not underwrite the loans, but shall review at their discretion for First-Time Homebuyer Program requirements. Lenders will process the underlying mortgages using standard procedures, with adjustments to those procedures to conform to the City loan guidelines.
20. The Program Administrator shall handle all the appeals process for applicants who have been denied program participation. Applicants who are denied for being over-income must wait "cooling off period" 6-months before re-applying. Applicants who provide false and misleading information shall not be allowed to re-apply.

SECTION II: PROGRAM ADMINISTRATION AND PROCEDURES

Eligible Applicants will apply for the City of Chula Vista's First-Time Homebuyer Program in conjunction with normal mortgage loan application procedures. The City loan application must be filed with an application for a mortgage to a Participating Lender.

The City loan processing procedures are designed to coincide with the standard mortgage loan processing and underwriting criteria that are in place at most mortgage lending institutions, although there are some City restrictions that must supersede normal processing and underwriting criteria. Recognizing that there are procedural variations among participating lenders, the steps outlined here are meant to serve as sequential guidelines, *reference City of Chula Vista Application* for a summary of the process and summary sheet to be included in each packet. *Please note, however, that all elements of the processing sequence must be completed at some point.*

A. LENDER ELIGIBILITY

Lender is defined as a financial institution, whether broker, retail, or wholesale, licensed to make first mortgage loans in the State of California. All Lenders who wish to participate in the City program must be enrolled as a participating lender with the Program Administrator. To enroll and maintain active status a lender must:

1. Attend a lender certification course by the City's Program Administrator.
2. Agree to adhere to Quality Commitment Policy. *Please refer to City of Chula Vista Application.*
3. Designate a contact person for the program.
4. Pay any associated lender certification fees as determined by the Program Administrator.
5. All lending personnel involved with the City program must attend Program Administrator training sessions and study and apply procedures listed in the City Program Guidelines. In addition, all lending personnel must become familiar with the Program Administrators application submittal system and process.
6. Provide the First-Time Homebuyer Program Manual and Lender Training Handbook to all loan processors.
7. Cooperate with City Housing staff in providing the best possible service to the Applicants.

The Lender will be required to submit certification that no material misstatements appear in the application and program documents. If the Lender becomes aware of such, whether negligently or willfully made, he/she must notify the City immediately. The Lender should also be aware and inform the Applicant of penalties provided by California law if a person makes a false statement or misrepresentation for the sole purpose of participating in this program. Housing staff will take all lawful actions to correct or mitigate the problem.

B. LOAN ORIGATION AND PROGRAM APPLICATION

1. Borrower applies to the Lender for a mortgage. Lender performs standard underwriting procedures to qualify Applicant for a first mortgage, utilizing the City's required underwriting requirements in lieu of certain standard criteria.
2. Lender describes parameters of the City program to Applicant and determines eligibility based on a review of income, prior homeownership and all other factors listed in this manual.
3. Lender obtains three prior year's tax returns from Applicant and prepares to have the Seller Affidavit forwarded with instructions to the seller.

4. Lender gives the Applicant a copy of the City's First-Time Homebuyer Application, Affidavit, and Release of Information. This document serves as the formal application to the City and contains the required certifications below:
 - a. That the residence will be used as the Principal Residence and that the Applicant must notify the City when the home ceases to be the Principal Residence.
 - b. That the Applicant has not had an ownership interest in a Property during the three year period prior to the date of application.
 - c. That this is a new mortgage loan*.
 - d. That the loan applied for does not constitute a prohibited mortgage**.
 - e. That the Applicant was not forced to apply through a particular Lender.
 - f. That the Applicant's gross annual household income does not exceed permitted income limits.
 - g. That no interest, commission or other fee is being paid to a related person.
 - h. Acknowledgment that any material misstatement or fraud is made under penalty of perjury.
 - i. City's loan application matches vesting on 1st Mortgage. City will not allowed vesting as married but sole and separate property. However, if borrower provides a letter from the 1st lender showing the difference in interest rate as justification for allowing sole and separate property, City and its Program Administrator may consider such request at its discretion. City staff and Program Administrator will review these on a case by case basis. In circumstances, where co-borrower has derogatory credit, the City will deny the request for sole and separate property. If co-borrower has no credit lines, then the City will review the interest rate variation and make a determination to allow for a change in vesting.

*New Mortgage Requirements: The Lender and the Applicant, using the Program Affidavits, state that the mortgage being acquired in connection with the loan will not be used to acquire or replace an existing mortgage or land contract.

**Prohibited Mortgages: Any liens superior to the City First-Time Homebuyer Loan, other than the new first Trust Deed, are not allowed under any circumstances.

C. CITY APPLICATION PACKET

Applicant/Lender transmits an application packet to the City's Program Administrator that includes the following City forms and additional documentation as required:

1. City First-Time Homebuyer Application*
2. Authorization for Release of Information Form*
3. Complete copy of Lender's First Mortgage Loan Application
4. Income Computation Worksheet and all supporting documentation*
5. Subsidy Layering Analysis

6. Three most recent 30-day bank statements & income documentation as described in application
7. Three years of Federal Income tax Returns and/or Declaration of No Income Affidavits* for a three-year period
8. Certificate of Completion for First-Time Homebuyer Education and Pre-Purchase Counseling Training Courses. Borrower and non-borrowing spouse must complete both courses with a provider from the Program Administrators approved list.
9. For a complete list of required documents, see the City of Chula Vista Application available for download at <https://sdhc.org/housing-opportunities/first-time-homebuyers/participating-lenders/>

Once property has been selected:

1. Purchase Contract and all Addendums signed by all parties
2. Program Administrator issued commitment letter
3. Lead-Based Paint Disclosure*
4. Appraisal and Third-Party Inspection
5. Property Standard (PS) Inspection (See List of Approved Inspectors on SDHC website)
6. Copy of Signed Receipt of Disclosures
7. Copy of Preliminary Title Report
8. Signed and executed copy of the Power of Attorney if applicable

* City Forms are to be completed as high-quality copies of the original documents. Updated forms will be provided to participating lenders as they are revised and may be ordered by contacting the City's Program Administrator. All applicants must provide a release to the City, HCD and the Program Administrator, allowing of review of any documents to provide proof of employment and earnings, current occupancy, and other related information.

Submit the APPLICATION PACKAGE to the Program Administrator (via Lender Portal):

San Diego Housing Commission: <https://www.sdhc.org/housing-opportunities/first-time-homebuyers/participating-lenders/>

Submission of the abovementioned forms/documents to the Program Administrator constitutes completion of the APPLICATION PACKAGE.

D. CITY PROCESSING

1. Program Administrator accepts and reviews the Application package and makes a determination as to completeness and accuracy. The City will also review the Application and make a final determination to eligibility. Final determinations for eligibility and all interpretations of the regulations shall be at the discretion of the City's Housing Division Manager.

- a. Approvals - Once approved, the City will issue a pre-commitment of funds for a 60 day period. After the pre-commitment period funds will be released back into the FTHB Program. One extension may be granted of up to 30 days due to extenuating circumstances and at the discretion of the City.
 - b. Denials – Should a submitted application be deemed ineligible for any reason by the Program Administrator, a denial letter will be issued.. After the initial application, denials may be issued due to any household changes, including but not limited to, changes in household size, debt, assets, or income. In such cases, the applicant may be required to submit proof of the change for a period of time (as identified in the denial letter), dependent on the reason for the change and at the discretion of the Program Administrator.
2. All applications received are subject to the availability of funds. The City has sole discretion to terminate or suspend the program at any time.
3. The City will maintain a cumulative total of loan amounts reserved. When program funds are about to be depleted, the Program Administrator will notify all participating Lenders.
4. A commitment of funds will be issued by the Program Administrator for a 60-day period at receipt of the purchase contract. If the purchase contract falls through, the City will have sole discretion to release the funds back into the FTHB Program or issue an extension of the pre-commitment.
5. Lender will complete the remainder of the standard mortgage application process.
6. Program Administrator/City Package Turn-Around: The Program Administrator shall date-stamp packages and review in order of receipt. Turn-around time for reviewing and sending a conditions list, loan commitment or denial letter to the Lender is 6 business days from the receipt of a **complete*** package.
7. Incomplete Packages: Incomplete packages may delay the approval and subsequent issuance of the City Commitment Approval Letter.

* Complete packages must include those items listed under Section II.D.

E. PROPERTY SELECTION

1. Once a property has been selected an initial purchase offer can be issued contingent on a certified licensed third-party appraisal and property meeting inspection requirements, per Section F and G.
2. An appraisal to establish the property value as determined by a certified state licensed appraiser must be completed and provided to the City, as well as a third-party inspection and all lead certification requirements as specified in Section F.
3. Prior to the presentation of the final purchase offer, adjusted based on the licensed appraisal, a voluntary acquisition notice shall be given to the owner of record. The acquisition notice must be placed on top of a purchase offer that is to be presented to the seller. The acquisition notice will include the following:
 - a. The participant has power of eminent domain, but will not acquire the property if negotiations fail to result in an amicable agreement (“Voluntary Acquisition”);
 - b. An estimate of the property value of the property as determined by a state licensed appraiser and paid for by the Applicant, conducted within 60 days of said purchase offer and acquisition notice;
 - c. Seller certifies that the property has not been occupied by a tenant within the last four months (with the exception of the potential buyer) and that no tenant has been forced to move within the last four months. In addition, seller warrants that no rent is being received for the property, and further certifies that no occupants of the property pay rent to reside there;
 - d. Since the purchase is voluntary, the seller is not eligible for relocation payments, or other relocation assistance; and,
 - e. If an acquisition notice is not provided to the seller containing the above disclosures prior to submitting the purchase offer, a provision that the seller may withdraw from the agreement after this information is provided. All purchase offers shall be reviewed by the City and/or Program Administrator prior to submittal to the seller to ensure the appropriate contingency clauses are contained in the document regarding inspections, tenant-occupancy, loan approvals, and other necessary items to comply with these guidelines. Only after a participant has an accepted purchase contract shall the commitment letter be issued by the Program Administrator and an allocation of funds can be reserved for the City second loan.

F. PROPERTY INSPECTION

1. All applicants are required to obtain a housing inspection from a inspector from the Program Administrator’s approved list.

2. All properties built prior to 1978 must meet new HUD regulations for notification, inspection, reduction/abatement and clearance of lead-based paint hazards under Title X of the Housing and Community Development Act of 1992 (effective September 15, 2000). If subject property was constructed prior to 1978, during the due diligence period, the Lender must request that an Independent Certified Risk Assessor (or certified equivalent) conduct a property inspection and Risk Assessment in compliance with the Home Program.

The following Table demonstrates the steps necessary in evaluating and correcting lead-based paint in relation to the dollar amount spent on the rehabilitation of the property.

| | < \$5,000 | \$5,000- \$25,000 |
|---|--|--|
| Approach to Lead Hazard Evaluation and Reduction | Do no harm | Identify and control lead hazards |
| Notification | Yes | Yes |
| Lead Hazard Evaluation | <ul style="list-style-type: none"> • Paint testing of surfaces to be disturbed by rehabilitation | <ul style="list-style-type: none"> • Paint Testing of surfaces to be disturbed by rehabilitation • Risk Assessment |
| Lead Hazard Reduction | <ul style="list-style-type: none"> • Repair surfaces disturbed during rehabilitation • Safe work practices • Clearance of work site | <ul style="list-style-type: none"> • Interim controls • Safe work practices • Clearance of unit |
| Ongoing Maintenance | For HOME rental Programs Funded | Properties only By Other |
| EBL | No | No |
| Options | <ul style="list-style-type: none"> • Presume lead-based paint • Use safe work practices on all surfaces | <ul style="list-style-type: none"> • Presume lead-based paint and/or hazards • Use standard treatments |

If a determination is made by the Certified Risk Assessor (or equivalent per HUD protocol), that Lead-Based Paint Hazards are present on the subject property, the City shall notify Buyer, Lender and Escrow within 15 days of such determination and provide those parties with a copy of any and all Risk Assessment Report(s). The Lender will be notified of work needed to cure defects, if any. If defective paint surfaces are found, seller must properly abate the painted surfaces or the home shall be ineligible for purchase. Seller and purchaser will be required to sign a disclosure form prior to the close of escrow.

3. The written report(s) of findings must be provided to the City's Program Administrator. The Program Administrator will review the reports to ensure the subject property meets HUD's Property Standards and HUD lead-based paint regulations. The City and/or

Program Administrator may also request an inspection be conducted by the City's Code Enforcement or Building Department to ensure the property meets City building standards, inclusive of all required permits.

4. The City loan may be funded upon the completion of the repairs and clearance upon receipt of the HQS Clearance Report and Letter from approved inspector.. Properties must meet minimum health and safety standards upon occupancy, as inspected by the Program Administrator.

G. LOAN CLOSING

1. Program Administrator partially completes the Closing Affidavit.
2. Lender and City forward loan documents to selected escrow officer with instruction for closing the loans. The buyer signs the City loan documents. The escrow officer forwards the copies of the executed Loan Documents back to the Program Administrator.
3. Before the expiration of the 60-day commitment and prior to recordation the Lender and Escrow send the Close of Escrow documents to the Program Administrator. These documents include:
 - a. Signed copy of City Deed of Trust and Homeowner's Regulatory Agreement for the Balanced Communities program participation (*Escrow sends original Deed of Trust and Agreement to County Recorder's Office*), original Promissory Note, Truth in Lending Statement, Escrow Instructions and all amendments and copy of estimated HUD 1 Statement, *see City of Chula Vista Application for samples of the Regulatory Agreement, Deed, and Note.*
 - b. City Loan Disclosure, *see City of Chula Vista Application.*
 - c. City Error and Omission/Compliance Agreement
 - d. Closing Affidavit signed by the Applicant(s) at the time of the loan closing.
 - e. All outstanding loan conditions listed on the Commitment letter and/or Instructions to Escrow.
 - f. City reviews Closing Package and checks the file to ensure all necessary documents have been submitted.
4. City loan documents are only good during the month that they are drawn and any delays may require the preparation of all City final loan documents with a corrected date. There will be no funding into the month.
5. The City will transfer funds by wire upon receiving a request from the Program Administrator. The City shall wire funds to escrow that includes any approved homebuyer assistance up to \$120,000. Any secondary wires that are issued due to errors on behalf of the Lender, Escrow or Title Company will require an additional \$35.00 re-wire fee and

shall be paid by the party at fault. Upon request, City will transfer funds within 7 business days.

Lenders must adhere to the time frame for the City and the Program Administrator processing period, promptly notifying the Program Administrator in writing of any loan cancellations and/or request for reservation or commitment extensions.

If the Lender assigns responsibility of execution of City loan forms to Escrow or Title Office personnel, the Lender assumes full responsibility for training the personnel to comply with the requirements of this Manual.

H. CANCELLATION AND COMMITMENT EXPIRATIONS

1. Cancellations: When a decision is made not to continue with the City application, written notice must be received at the office of the Program Administrator prior to the expiration of the Commitment. The notice must include the reason for the cancellation and the signatures of both the Lender and the Applicant.
2. Expiration of Commitment: Before the Commitment has expired, the Lender must either:
 - a. Submit the closing package;
 - b. Submit written notice of loan cancellation; or
 - c. Request a 30-day extension in writing with explanation of extenuating circumstances.

Upon expiration of the Commitment, the Lender must do one of the following:

- a) If the loan has not closed, the Lender must submit a request for extension and provide estimate of closing date to the Program Administrator.
- b) If 60 days has passed since the Commitment was issued and no extension was requested, the Lender must submit an entirely new Loan Application with current income verification with a letter of explanation for the delay.
- c) If the loan was canceled, the Lender submits a cancellation notice as described above.

In all cases, expiration of the Commitment without the required action by the Lender will result in the Lender being placed on “Inactive Status”, and the Lender may submit no new City applications until the issue has been resolved. Failure to comply may result in the Lender’s removal from the Certified Lender Partner List and program.

SECTION III: CHANGES PRIOR TO CLOSING

Program Administrator issues a loan Commitment based on the Applicant's and Seller's Affidavits and the Lender's certification that the City's Program requirements have been met. The Lender must immediately notify the Program Administrator in writing of any change that could affect the Applicant(s) eligibility for the loan. If a change in the circumstances of the Applicant is such that he/she no longer meets program requirements, the Commitment is automatically revoked, reference "Denial" Section D.1.b.

1. Income: The eligibility of the Applicant for a City loan is based on the Applicant's anticipated taxable income. Program Administrator will issue the Commitment based on the household income as of the date the Commitment is issued. The income verified for the Commitment is valid as long as the loan closes within four months after the financial information was originally submitted and there have been no changes which effect previously reported income. If the loan does not close within three months, all applicable City documentation must be submitted and income must be re-verified.
2. Marital Status: If the Applicant gets married after issuance of the Commitment and prior to closing, the spouse must satisfy the prior homeownership requirements contained in the First-Time Homebuyer Application and Affidavit and the Closing Affidavit. The Lender must also notify the Program Administrator program administrator. Any increase in the household income because of the new spouse must also be considered and may affect re-issuance of a new Commitment.
3. Acquisition Cost: If a change in acquisition cost occurs after the Commitment and prior to closing, the Lender will be required to originate and submit a new version of:
 - a. First-Time Homebuyer Loan Application and Affidavit
 - b. Amended Escrow Instructions
 - c. Seller Affidavit
 - d. Voluntary Acquisition Form
 - e. All other documentation that may be applicable as listed previously in this Manual
4. Loan Amount: Any changes to the loan amount which occur after the Commitment has been issued and prior to closing must be reported to the City immediately by phone, followed up with a written confirmation along with all applicable documentation listed in this Program Manual. Upon receipt of revised/updated documentation, a revised Commitment may be issued.