



Lender's Guide
To
Down Payment Assistance Program

Economic Development Department
Housing Division

July 1, 2010

Down Payment Assistance Program Guidelines for Low-Income Households

Purpose of the Down Payment Assistance Program -- The City of Stockton's Down Payment Assistance program is designed to assist eligible, low-income, first time buyers with the purchase of a home. Additionally, in some instances, the program provides funding to accessibility features for special needs persons.

The Down Payment Assistance program is intended to assist with the buyer's portion of funding, and it is not intended to increase the buyer's eligibility for a larger mortgage or higher purchase price. Eligibility begins with meeting several programmatic restrictions, including:

- A **first-time homebuyer** is defined as a borrower who has not had an ownership interest in any principal residence during the previous three-year period. Prior ownership during this three-year period is allowed only when the borrower was displaced due to divorce; and
- The buyer must meet the one-year minimum residency within the City of Stockton (note that San Joaquin County residential areas do not meet this residency requirement), **OR** the buyer must be employed within the incorporated city limits of Stockton for a minimum of one year; and
- The combined income of the household may not exceed the maximum for households at the 80% of Area Median Income, as established and revised from time to time by the U.S. Department of Housing and Urban Development.

Availability of this Program may change from time to time. Programmatic changes and availability will be announced in advance by a Program Bulletin. Also, it should be noted that the City of Stockton may be required to disclose all information provided by Borrowers to the Internal Revenue Service (IRS) pursuant to the IRS reporting requirements under the Tax Act.

Down Payment Assistance Loan Requirements – The eligibility requirements for obtaining approval of Down Payment Assistance Program loans are intended to comply with the federal and state laws, along with meeting the fiscal responsibilities of the City of Stockton. Eligibility requirements for the approval of Down Payment Assistance program loans include:

1. **Maximum Loan-to-Value Requirements –** The maximum loan-to-value requirements may not exceed **105%** of the appraised value of the property.
2. **Required Insurance Coverage:**
 - a. **Hazard Insurance --** For the life of the loan, each borrower is required to maintain hazard insurance, including fire and

extended coverage, with a loss payable endorsement to the City of Stockton, in an amount not less than the replacement value of the structure improvements maintained on an inflationary basis. The selected hazard insurer must be qualified to do business in California and have a current rating in Best's Insurance Guide of B or better. The maximum allowable deductible shall be the greater of \$1,000 or 1% of the face amount of the policy. Condominium or Planned Unit Development (PUD) insurance shall be in the form of a "master" or "blanket" policy for the entire project. Hazard insurance premiums are to be paid through an impound account maintained by the Lender/Servicer on behalf of the Borrower.

- b. **Flood Insurance** -- If the property is located in an area identified by the U.S. Department of Housing and Urban Development (HUD) as having special flood hazards and in which the sale of flood insurance is available under the National Flood Insurance program, the Borrower is required to obtain and maintain flood insurance. The amount of flood insurance required is equal to the outstanding balance of the loan or the maximum limit of coverage available for the particular type of property under the National Flood Insurance program, whichever is less. Flood Insurance premiums are to be paid through an impound account maintained by the Lender/Servicer on behalf of the Borrower.
- c. **Title Insurance Policy** -- The outstanding principal balance of each first mortgage loan must be covered by an ALTA Lender's Policy of Title Insurance naming the City of Stockton as its interest appears. The policy must have endorsements 100 and 116, 116.2 or 115, 110.5 and 104.1, as applicable. Note: TAXES AND ASSESSMENTS MUST BE PAID CURRENT.

3. **Impound Accounts** – The primary lender (first mortgage holder) must collect on a monthly basis a prorated amount to be impounded for the payment of all regular and special assessments or supplemental real estate taxes and assessments, mortgage guaranty insurance premiums, hazard insurance premiums, and/or any other insurance premiums, as required when the loan was closed (flood, etc.). This impounded amount will be for the term of the loan and is in addition to the monthly payment of principal and interest.

Permissible Fees and Charges – *NOTE: All permissible fees to the Borrower/Seller by the Lender are subject to change without notice.*

1. **Origination Fees** -- Lenders are permitted to charge an origination fee (or combination of origination fees and discount points) not to exceed a total of one percent (**1.0%**) of the loan amount.

2. **Processing, Underwriting, and Other Lender Charges** -- In addition to the allowed origination fee, Lenders are permitted to charge the **borrower** OR the **seller** processing fees, such as application, packaging, or processing, document preparation and/or underwriting fees, etc., to a maximum of \$550 (\$350 for processing, underwriting and other miscellaneous fees plus \$200 for document preparation.) Any "pre-qualification" fee charged up front to a Borrower whose loan ultimately closes as a City of Stockton-assisted purchase must be netted out of the allowed processing fee. All fees are subject to the mortgage insurer's restrictions and requirements.

In addition to normal fees allowed for first mortgage loans, Lenders are permitted to charge the Borrower or the seller an additional \$50 to process each subordinate mortgage. This \$50 processing fee should compensate Lenders for the normal origination and processing costs for the City of Stockton subordinate loan. Lenders are also permitted to recover out-of-pocket expenses for billed expenses from third party sources which may include appraisal fees, inspection fees, credit report fees, tax service fees and other similar expenses, provided it is customary to pass through these fees in the origination of mortgage loans. The Lender will be asked to substantiate the fees with invoices if they appear excessive, and will be required to rebate to the proper party any fee that is not substantiated or is considered by the City of Stockton to be non-allowable.

Underwriting Standards and Guidelines -- Lenders must use prudent underwriting practices established by the applicable mortgage insurer of each loan. Automated underwriting may be used, provided the mortgage insurer has approved the use of this service.

1. The City of Stockton will generally accept all Borrower credit and appraisal underwriting decisions made by the Lender, provided they are in accordance with the City's guidelines. These generally include credit, down payment requirements, loan-to-value requirements, debt-to-income ratios, etc., unless expressly provided for in this program guideline document or in subsequent related Bulletins. The City of Stockton may, however, request that the Lender document its underwriting decisions. The City also reserves the right to re-underwrite any loan submitted for approval and may re-verify any documentation as necessary.
2. **Co-Mortgagors** -- For the City of Stockton's purposes, co-mortgagors are defined as occupying, co-Borrowers. All mortgagors (including co-mortgagors) will be required to meet all of the City's eligibility requirements, including the tax law requirements such as the first-time homebuyer rule, income eligibility, and owner-occupancy. All individuals

- that will be on title must comply with the eligibility requirements under the federal tax laws.
3. **Co-signors** – For the City of Stockton’s purposes, co-signers are defined as non-occupying loan guarantors only. The City does NOT accept co-signers as guarantors for any part of the purchase transaction.
 4. **Gifts** -- Gift donations for the down payment are permissible; however, all donations are subject to documented verification.
 5. **Eligible Buy-Down Arrangements** -- Temporary interest rate buy-downs are NOT acceptable. Permanent buy-downs are acceptable.
 6. **Equal Credit Opportunity Act** -- Under the Equal Credit Opportunity Act (ECOA), Lenders normally are prohibited from requesting disclosure of certain information from an applicant. Under Section 202.5(b) and 202.8(a)(1) and (d) of the ECOA regulations, income information such as child support and alimony, and other information such as marital status, residence status, etc., can be requested in order to allow the City of Stockton to determine whether an applicant meets the income and other eligibility requirements of federal and state law relating to the loan.
 7. **Truth-In-Lending Requirements** - The Lender is required to make all necessary Truth-In-Lending disclosures on all loans, including the City of Stockton’s subordinate loan, within the required time period. The Lender must use its own forms for this requirement and maintain copies in the loan servicing file. Prior to Conditional Approval, the City will require a copy of only the initial Truth-In-Lending Disclosure on the City’s subordinate loan.

Appraisal/Appraiser Requirements - Qualified appraisers must be approved by the applicable mortgage insurer/guarantor and must meet the licensing requirement of the State of California.

For all loans, the City of Stockton requires that an appraisal for each unit be prepared by a qualified appraiser and be submitted with a location map, color photos and a floor plan at the time the loan is submitted for conditional approval.

Subordinate Lien and Resale Restrictions – City of Stockton policy does NOT allow for subordination of its original lien position.

The City’s loan program will forward to CalHFA and CalHome all applicable subordinate documents including, but not limited to, promissory notes, deeds of trust, loan agreements, declarations of restrictions, etc. for acceptance as a subordinate lender.

Loan Assumption Policy - City loans are NOT assumable by eligible homebuyers.

Borrower Fraud or Misrepresentation -- In the event that any representation by a Borrower was untrue when made or at the time of delivery of a loan to the City of Stockton, the Lender shall have 150 days from the date of discovery of the misrepresentation in which to cure any tax law defects by the Borrower. If such cure cannot be effected within the 150-day period, at the option of City, the Lender shall immediately repurchase the loan.

If it is subsequently determined or discovered that the Borrower never occupied the City financed property, or fraudulently induced the City to approve the loan, the City of Stockton may take appropriate action against the applicable parties that may include, but is not limited to, non-monetary default action on the loan and/or other legal action under the civil or criminal codes. Also, the City of Stockton may require the Lender to purchase the loan.

Prepayment Penalties -- There are no penalties for prepayment of the City of Stockton Down Payment Assistance loans.

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BORROWER ELIGIBILITY REQUIREMENTS

Borrower Credit Qualification - Borrowers must be able to qualify under the prudent underwriting credit standards of the Lender and of the City of Stockton. Borrowers must have sufficient funds to meet the required down payment, closing costs, necessary reserves, and sufficient income to meet the monthly mortgage payments, as determined by the mortgage insurer and the City. Lenders should pay particular attention to the following items:

1. **No Unpaid Collection Accounts** -- Any lien, judgment, and/or collection account must be paid prior to the submission of application to City of Stockton.
2. **Debt Ratios** -- The maximum debt ratios are 35% front end and 41% backend. There are no compensating factors allowed.
3. **First-Time Home Buyer Requirement** -- The City of Stockton's Down Payment Assistance program is restricted to first-time homebuyers. The City utilized tax law to define the status of a first-time homebuyer as a person who has not had an ownership interest in any principal residence (a home in which they lived) during the three-year period prior to the execution of the mortgage loan. Evidence of compliance with this requirement includes the **Borrower's Affidavit**. An executed original of this affidavit must accompany each loan package delivered to City for conditional loan review. Each party must personally execute all affidavits; no Powers of Attorney may be used with any of these documents. In addition to the Borrower's Affidavit, the following evidence is required to determine first-time home buyer status and must be included with each loan submission file:
 - a. The true, correct and complete signed copies of the Borrower's federal income tax returns as filed with the IRS (or IRS printouts of complete tax returns) for the immediate three years; or
 - b. An **affidavit** that the Borrower has not been required to file a federal income tax return during one or all of the preceding three years because the Borrower's gross income was less than the minimum required for filing federal income tax returns. In addition, if the Borrower submits this **Affidavit of Non-filing**, the Borrower must also include additional documentation, including, but not limited to verification from the Borrower's landlord, and rental receipts with rental agreements for the year(s) in question; and

- c. signed IRS Form 4506.

Maximum Income Limits -- The Borrower's annual family income may NOT exceed the maximum income limits as published by the City of Stockton in the most recent applicable **Down Payment Assistance Program Variable Components Bulletin**. The maximum income limits are based on median-family income data published by the Department of Housing and Urban Development (HUD) and may be lower than the maximum allowed under federal tax law. Revised income limits are periodically announced to Lenders by means of the City of Stockton's Down Payment Program Bulletin.

Recognize that at the loan approval stage, the City of Stockton will recalculate the Borrower's income pursuant to guidelines outlined in this Guideline and examine it for eligibility purposes. Details examined include:

1. **Family Income Definition** -- Family income is defined as the annualized gross income of a mortgagor, and any other person who is expected to 1) live in the residence being financed, 2) be vested on title, and/or 3) be liable on the mortgage. When calculating annual income for eligibility purposes, City of Stockton will NOT include income from other household family members who are under 18 years of age. The City calculates family income for program eligibility purposes only, and these calculations are not intended to reflect or replace the income calculations used by the Lender or the mortgage insurer for loan qualification purposes. The City's income-eligibility calculations are described below.
2. **Gross Income Includes:**
 - a. **Wages/Salaries/Commissions** - The gross amount of wages and salaries, **before** payroll deductions or un-reimbursed employee expenses, commissions, fees, tips, bonuses, gambling winnings, prizes, and other compensation for personal services. The IRS Form 2106 Un-reimbursed Business Expenses CANNOT be deducted from gross income.
 - b. **Assets and Business Income** includes:
 - (1) All interest and/or dividends earned on assets.
 - (2) The net income from the operation of a business or profession or from the rental of real or personal property. For this purpose, if this operation results in a loss, the loss may not be used to offset income generated from other sources. Any shareholder that owns ten percent or more of any outstanding class of stock in a corporation, shall also be deemed to have received income in its proportionate share of net earnings not otherwise distributed in salaries or dividends.

- (3) The distributive share of partnership income.
- (4) Periodic payments from a trust fund.

c. **Human Assistance/Services** includes:

- (1) The full amount of periodic payments received from the Social Security Administration (unless deferred or paid in a lump sum), housing assistance payments, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts.
- (2) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.
- (3) The full amount of public assistance payments.

d. **Alimony/Child Support/Contributions** includes:

- (1) Periodic determinable allowances, such as alimony and separate maintenance payments received, housing allowances received, and regular contributions or gifts received from persons not residing in the dwelling, where such sums are received on a recurrent basis, and which may be reasonably expected to continue.
- (2) Child support payments received by an applicant for the benefit of the applicant's child or children.

e. **Military** income includes all regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the household or spouse (or other persons whose dependents are residing in the unit), who will have a vested interest in the property and receive such pay up to the time of closing.

3. **Gross Income** does NOT include:

- a. **Gifts/Service Payments**, such as the following are not included as a part of the calculation for gross income:
 - (1) Casual, sporadic, or irregular gifts.
 - (2) Resident service payments in an amount received by a resident for performing a service for the housing authority or owner, on a part-time basis that enhances the quality of life in the development, if it does not exceed \$200 per month.
- b. **Medical** amounts that are specifically for the cost of medical expenses or are for reimbursement of the cost of medical expenses.
- c. **Lump-sum additions** (other than regular payments) to household assets, such as inheritances, insurance settlements (including payments under health and accident insurance and worker's compensation), capital gains, student financial

assistance, settlements for personal or property losses, and property tax rebates.

d. **Education** funding includes:

- (1) Amounts of education scholarships paid directly to the student or to the educational institution and amounts paid by the Government to a Veteran, for the "cost of attendance" at an education institution. "Cost of attendance" covers not only tuition, but also includes fees, books and miscellaneous expenses for material. (Non-school related veteran's benefits are included in the income calculations.)
- (2) Payments received from the Workforce Investment Act or State or local job training programs.
- (3) Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under federal work-study programs or under Bureau of Indian Affairs student assistance programs.

e. **Foster Care/Adoption/Minors/Students** monies include:

- (1) Foster child care payments or adoption assistance payments, if not used to credit qualify for the loan.
- (2) Income from employment of minor dependents not on title.
- (3) Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of household and spouse).

f. **Human Assistance/Services** value includes:

- (1) The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1977 U.S.C. Sections 2011 and 2027, which is in excess of the amount actually charged the eligible household.
- (2) Payments to volunteers under the Domestic Volunteer Service Act of 1973.
- (3) Payments of allowances made under the Department of Health and Human Services Low-Income home Energy Assistance Program.
- (4) Home care payments for developmentally disabled children or adult family members.
- (5) Deferred periodic payments of supplemental security income and social security benefits that are received in a lump sum.
- (6) Income of a live-in aide, as defined in 24 CFR §5.403.
- (7) Adoption assistance payments in excess of \$480 per adopted child.
- (8) Amounts specifically excluded by any other Federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR 5.609(c) apply. A notice will be published in the Federal Register and distributed to PHAs and housing owners identifying the benefits that qualify for this exclusion.

- (9) The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990.

g. **Government Payments/Credits** include:

- (1) 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.
- (2) Reparation payment paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
- (3) Payments received from programs funded under Title V of the Older Americans Act of 1985.
- (4) Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in Re Agency- product liability litigation.
- (5) Earned income tax credit (EITC) refund.
- (6) The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
- (7) Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of a crime against the applicant under the Victims of Crime Act.

h. **Native Americans** receipt of:

- (1) Payments received under the Alaska Native Claims Settlement Act.
- (2) Income derived from certain sub marginal land of the United States that is held in trust for certain Indian tribes.
- (3) Income derived from the disposition of funds to the Grand River Bank of Ottawa Indians.
- (4) The first \$2000 of per capita shares received from judgment funds awarded by the Indian Claims commission for the U.S. Claims Court, the interests of individual Indians in trust or restricted lands, including the first \$2000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands.
- (5) Payments received under the Maine Indian Claims Settlement Act of 1980.
- (6) Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation.

i. **Other Allowances/Compensations** include:

- (1) Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990.

- (2) Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is a child of a Vietnam veteran.
- (3) Allowances, earnings and payments to individuals participating in programs under the Workforce Investment Act of 1998.

4. Method of Income Calculations include:

a. Wage and Salary

Use one of the appropriate formulas for full-time employment (40 hours) or employment with consistent regular hours or income to arrive at the Borrower's base pay:

Monthly -

Monthly income x 12 months = annual income

Bi-weekly -

Bi-weekly income x 26 = annual income

Weekly -

Weekly income x 52 = annual income

Hourly -

Hourly income x 40 (hours per wk) x 52 = annual income

b. Variable Income -- Calculations such as part-time employment with variable hours (or less than 40 hours per week), inconsistent income or hours, overtime, bonuses and commissions, etc., can be calculated using year-to-date income, plus previous year income (from the same income source), divided by the number of months reviewed (up to but NOT exceeding **24** months) times 12 to arrive at the annual income.

c. Self-Employed or Non-Corporation -- self-employed Borrower can also be considered to have variable income. Gross annual income calculations will be based on the previous year's net income shown on Schedule C of the federal income tax returns plus net income before taxes from the Borrower's signed, year-to-date Profit and Loss Statement, divided by the appropriate number of months (up to but NOT exceeding **24** months) times 12 to arrive at the annual income.

d. Corporation -- If the applicant owns 10% or more of any outstanding class of stock in the corporation, refer to the federal income tax returns, and to the schedule that lists officer salaries by name and amount. The figure given for that named applicant, plus the applicable proportionate share of net earnings not otherwise distributed, plus dividends constitutes income.

e. Interest Income -- Interest earnings are computed on the net principal at the current market rate after reduction for down payment and/or closing cost requirements as applicable.

f. Real Estate Income -- Refer to the federal income tax form, and the appropriate Schedule E, for net income after depreciation, expense of upkeep, rental income, etc.

5. **Income Limit Determination** - Once all of the various sources of income are calculated and added together, compare the annual income against the most recent Program Bulletin's income limits for the county under the applicable family size and area.
6. **Employment/Income Verification Documentation** -- Verifications of Employment and other supporting documentation regarding income such as paycheck stubs should be no more than 60 days old at the time of submission to the City for loan approval.

Owner-Occupancy -- Borrowers seeking City financing must occupy the financed residence as their principal residence within 60 days of closing, and continuously thereafter, for the term of the loan or until the property is sold. Investor loans are prohibited. Upon discovery that the property financed by City is rented out by the Borrower without City's prior written approval, the City will notify the Borrower immediately to correct the situation. Failure on the part of the Borrowers to re-occupy the property may result in a declaration of a non-monetary default.

Residency Requirement – The City of Stockton requires all Borrowers to have been living within the incorporated city limits for the immediate previous 12 months, OR to have been employed within the incorporated city limits for the immediate previous 12 months. The City will require all Borrowers to be either a citizen or national of the United States or a qualified alien as defined by the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).

- a. **Qualified aliens** include:
 1. An alien lawfully admitted for permanent residence under the Immigration and Naturalization Act (INA).
 2. An alien who is granted asylum under Section 208 of the INA.
 3. A refugee admitted to the United States under Section 207 of the INA.
 4. An alien paroled into the United States under Section 212(d)(5) of the INA for a period of at least one year.
 5. An alien whose deportation is being withheld under Section 243(h) of the INA or Section 241(b)(3).
 6. An alien who is granted conditional entry under Section 203(a)(7) of the INA as in effect prior to April 1, 1980.
 7. An alien who is a Cuban or Haitian entrant.
 8. An alien not in the above categories who has been admitted to the United States for a limited period of time (a non-immigrant). Non-immigrants are persons who have temporary status for a specific purpose.
 9. An alien who has been battered or subjected to extreme cruelty in the United States by a spouse or a parent who is a citizen or

lawful permanent resident of the United States (or by a member of the spouse or parent's family residing in the same household and the parent or spouse has acquiesced to such battery or cruelty); or

10. An alien whose child has been battered or subjected to extreme cruelty in the United States by a spouse or parent of the alien who is a citizen or lawful permanent resident of the United States (or by a member of the spouse's or parent's family residing in the same household and the parent or spouse has acquiesced to such battery or cruelty) and the alien did not actively participate in such battery or cruelty; or
11. An alien child who resides in the same household as a parent who has been battered or subjected to extreme cruelty in the United States by that parent's spouse (or by a member of the spouse's family residing in the same household as the parent and the spouse or parent consented to or acquiesced to such battery or cruelty) and the alien child did not actively participate in such battery or cruelty.

Note that Borrowers must declare their status on a Statement of Citizenship, Alienage, and Immigration Status for State Public Benefits form and provide the Lender with photo identification and documentation to support their declared status. For a list of acceptable supporting documentation, refer to the Statement and the accompanying lists A and B attached thereto (list A provides a list of acceptable documents to substantiate the status of U.S. citizens or nationals; list B provides a list of acceptable documents to substantiate the status of battered aliens only).

Lenders **MUST REVIEW** and **VERIFY** the supporting documents, and if acceptable, execute the **Lender Verification of Citizenship/Qualified Alien Status**. If the supporting source documents appear genuine, the Lender will provide A COPY OF THE SUPPORTING DOCUMENTS to the City of Stockton, and include a copy of **ONLY** the Lender Verification of Citizenship/Qualified Alien Status in the Loan submission file. **DO NOT submit the supporting documents to the City UNLESS the documents appear suspicious.** In that instance, a copy should be forwarded to City for verification with the INS.

If an applicant is declared ineligible under the residency requirement, the Lender must issue a written notice advising the applicant of his/her ineligibility and the reason why he/she was determined ineligible and provide a description of the applicable appeal process. Lenders may use the Determination Letter of Ineligibility for this purpose.

Any applicant who is determined to be ineligible to receive a City loan pursuant to a determination that they are not a citizen or national of the

United States or a qualified alien, may appeal such a determination. The appeal process CANNOT be used to appeal other City or Lender eligibility decisions. All appeals must be submitted in writing to City within fifteen (15) calendar days from the applicant's receipt of the written determination and must state the reason why the applicant believes the residency determination was in error. City will review the case and may refer the documentation to the INS. City will issue a written decision within fifteen (15) calendar days following receipt of the appeal. All decisions by the City, as well as determinations by the INS, are final and cannot be overruled.

Homebuyer Education Counseling Requirement -- Each buyer must attend a minimum eight (8) hours of Homebuyer Education Counseling Course provided by a City-approved provider, as listed and updated from time-to-time through the DownPayment Assistance Program Approved Homebuyer Education Providers. A copy of the Certificate of Completion for the Course must be included in the application package to the City.

Non-discrimination and Privacy Requirements -- All applicant eligibility requirements contained in this guide must be applied without regard to the race, creed, color, gender, religion, or national origin of the applicant. Lenders shall be sensitive to the privacy interests of the applicants, and should use the information received only for purposes of verifying the applicant's eligibility for a City loan.

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PROPERTY ELIGIBILITY REQUIREMENTS

Purchase Price (Acquisition Cost) Limits -- In accordance with federal tax laws, the City of Stockton must establish home purchase (sales) price limits within the federal "safe harbor" limits for eligibility purposes. "Purchase price" for purposes of eligibility, refers to the total contract purchase price (acquisition cost) as shown on the settlement statement (HUD 1) of acquiring a residence from the seller as a completed unit, plus any monies paid to the seller outside of escrow, along with expenses paid by the Borrower on behalf of the seller, and any liens or assessments to which the home is subject.

See City's most recent Down Payment Assistance Program - Variable Program Components form for a current list of maximum purchase price limits by county for new construction and existing-resale homes. These limits are updated periodically by bulletins.

Compare the total acquisition cost (price) of the property to the price limit for the City of Stockton (where the property must be located.) If the unit price exceeds the applicable price limit, the property is ineligible for the City's financial assistance/ loan.

Eligible Single Family Units -- The following minimum standards and/or requirements shall apply for eligibility purposes:

1. The property must be eligible under the purchase price limits described above.
2. Newly constructed and existing resale real estate single-family units of any design configuration are eligible citywide. Newly constructed homes are defined as homes that have not been previously occupied and include model homes not previously used as a residence. Condominium conversions and rehabilitated units are treated as resale homes because the units were previously occupied.
3. Modular homes with permanent foundations are acceptable.
4. Each unit must meet the minimum eligibility requirements of the City.
5. The property must be intended for single-family residential use only. Additional units, including guest houses, "Granny" units, "in-law" quarters, and/or separate units containing kitchen facilities are not eligible for City financing.
6. Any residential unit where more than 15% of the total area of the residence will be used for a trade or business and which qualifies the Borrower for a tax deduction for business expenses for business use of the residence under Section 280A of the IRS code is not eligible.
7. Lot size cannot exceed one (1) acre maximum.
8. All units must be free and clear of all resale controls/restrictions and/or secondary financing unless previously approved by the City.

9. Defects identified by the City and/or requirements specified by the City on the inspection report must be corrected prior to submission of the City loan application.
10. All units must be complete with respect to construction or repairs, ready to occupy, meet health and safety standards, and meet all of the requirements of the City.

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LOAN COMMITMENT

LOAN COMMITMENT PROCESS -- Lenders may receive conditional loan commitment of loan funds on behalf of qualified homebuyers at no fee.

1. By submitting a fully-documented loan package to City.
NOTICE: The City ONLY allows lenders to submit loan packages via mail or hand-delivered. No Exceptions.
2. **Interest Rates** – The City’s loan interest rates and fees may change without notice. Rate changes are announced in the Down Payment Assistance Program Variable Program Components Bulletins and are posted on the City’s web page at www.stocktongov.com/housing/news-events.cfm
3. **Borrower/Property Specific Reservations** – Each application package is considered unique and specific for each Borrower and property. Once an application has been submitted, City will not permit any substitutions for different properties, Borrowers or Lenders. An existing application must be canceled and a new application must be submitted if a substitution is necessary. All applications, whether first-time or re-applications, are subject to the policies, procedures and rates in effect at the time of the **new** application.
4. **Loan Approval and Purchase** – The City of Stockton will cancel any application that has not received its conditional approval within 45-days of application for resale purchases, or within 60-days of application for new construction purchases. Also, any loan that has received final approval by City, but whose purchase documents have not been delivered to title within fifteen (15) days will be cancelled. City’s current policy is not to grant additional extensions after the delivery date have elapsed. (See Chapter 6 for loan submission, approval and purchase information.)

LOAN SUBMISSION AND APPROVAL -- The Lender must submit a fully underwritten, Lender-approved loan package to the City for Tax Act and program policy compliance review prior to the initial loan reservation date being established. Upon completion of its review process, the City will issue a decision of conditional approval or denial. Once it is conditionally approved, the loan will be forwarded to City Council for final approval and funding. The City’s conditional approval and funding procedures are provided below.

Conditional Approval Process -- After the Lender’s designated underwriter has given final approval for the loan, has established that the Borrower and property are within the City Program eligibility limits, and has obtained the mortgage insurer’s approval, the Lender can forward the loan to the City for conditional approval. The loan package must have the underwriter’s signed, final approval of loan closing and include all of the documents listed below:

1. Required Documents for Loan Approval -- The following documents are required to obtain City conditional approval. The file should be submitted in a legal size folder with the required documents attached in the stacking order described below:

a. Credit Documents (Right Side of File)

(1) Final, signed MCAW 4155.1 Worksheet for FHA loans; VA Loan Analysis Form 26-6393 for VA loans; Uniform Underwriting and Transmittal Summary (FNMA form 1008) for conventional loans, or Conditional Commitment for Guaranty (FR 1980-18) for USDA loans. All forms must be signed and approved by the Lender's delegated credit underwriter. For loans using allowable automated underwriting, include the Approved/Eligible "Findings Report".

(2) URLA - (Uniform Residential Loan Application) copy of signed original and final, typed copy for all Borrowers.

(3) URLA - (Uniform Residential Loan Application) copy of signed original for all Co-buyers, if applicable.

(4) Credit Reports - the report must contain a 3-year landlord rating.

(5) Income Verifications including: Verification of Employment, copies of paycheck stubs covering minimum of three (3) months, latest W-2 forms, signed, year-to-date Profit & Loss Statement, social security award letters, etc.

(6) Signed, complete copies of federal income tax returns (IRS 1040s) for the previous three years. IRS printouts with complete details that reflect either the standard deduction or itemized deductions may be substituted.

(7) Tax Return Affidavit of Non-Filing, if applicable. (This form is only to be used if the Borrowers were "NOT REQUIRED" to file federal income tax returns.)

(8) IRS Form 4506.

(9) Sales/Purchase Agreement with all addendums, and/or final Escrow Instructions.

(10) Complete copy of URAR (Uniform Residential Appraisal Report) with location map, sketch, and clear color photos.

(11) Preliminary Title Report with plat map and A.L.T.A. address supplement. Include a full copy of any document appearing on the Title Report that contains resale restrictions or equity sharing.

(12) Certificate of Eligibility (Form 26-8320)-VA loans only.

b. City required documents (Left Side of File)

(1) City's Application Worksheet (DAP1)

(2) Seller's Affidavit

- (3) Borrower's Affidavit
- (4) Statement of Citizenship, Alienage, and Immigration Status for State Public Benefits (Benefit Status Form 1)
- (5) Lender Verification of Citizenship/Qualified Alien Status
- (6) Copy of each initial Truth-In-Lending Disclosure Statement issued on each subordinate loan
- (7) Copy of Homebuyer Education Counseling Course certificate

- c. **No other documentation** should be submitted, **UNLESS** required to determine the eligibility for the program by the borrower or property.

3. City Procedures include:

- a. **Document Receipt** -- On the day of receipt, the loan file is date-stamped and placed with other files received on the same day to await review.
- b. **File Assignment for City Review** – The City assigns loans files on a first-come, first-served basis. Incomplete loan packages are removed from the **queue**.
- c. **File Review** – The City's loan reviewer will verify the following:
 - (1) the loan was properly underwritten and approved by a FHA, VA, or USDA underwriter;
 - (2) all required forms and documents are included, current and correct;
 - (3) the Borrower meets all City eligibility and programmatic requirements, including first-time homebuyer and residency requirements;
 - (4) the Borrower's income, as computed by City for eligibility purposes, is within City's published income limits at the time of loan reservation;
 - (5) the property meets City standards and is within the City's published sales price limits at the time of loan reservation;
 - (6) the property is within the incorporated city limits of Stockton, California;
 - (7) all senior and/or subordinate liens or resale controls on the property are acceptable.
- d. **Notice of Conditional Approval or Rejection** – The City reviewer will notify Lenders of each loan approval, suspension, or rejection by electronic fax. If the package is incomplete, the process will be delayed and the file will be suspended until all items are complete and accurate. When the loan is approved, City will electronically fax to the Lender the Conditional Approval.

- e. **Cancellation** -- Lender must notify the City in writing to cancel applications for any loans that will not close within the required period. The City will not return the loan file to the Lender.
- f. **Normal and Priority Processing** -- Depending on volume levels, the City normally reviews loans within two to five working days. All loans will be prioritized by the date and time received and reviewed on a first-come, first-served basis. Under **extreme** hardship situations, the City will consider requests for priority processing. Lenders requesting priority processing must submit their request in writing with a full explanation of the hardship situation and pertinent backup documentation if requested. The City will review the circumstances and render a decision to accept or decline the request based on the merits of the situation. Lenders should, however, make every effort to allow City adequate time to review submitted loans. Requests to prioritize that become routine will be declined.
- g. **Disbursement of Funds** -- Upon review and approval of the loan application by Department of Housing and Redevelopment and the City Council, the City will disburse funds to title via check within ten (10) days of the approval date.

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