

**HOMEBUYER
ASSISTANCE PROGRAM
PROGRAM GUIDELINES**



**COSTA MESA REDEVELOPMENT AGENCY,
CITY OF COSTA MESA, CALIFORNIA**

**COSTA MESA REDEVELOPMENT AGENCY
GUIDELINES FOR HOMEBUYER ASSISTANCE PROGRAM
AGENCY LOANS, INCLUDING EQUITY SHARING PAYMENTS**

I. INTRODUCTION

A. Encourage Homeownership in City. The Costa Mesa Homebuyer Assistance Program (“Program”) has been established to encourage home ownership in the City of Costa Mesa by providing financial assistance to eligible homebuyers to purchase qualifying Property at an Affordable Housing Cost. The Program is designed to assist Low to Moderate Income Eligible Households who, based on institutional underwriting criteria, are unable to qualify for and/or afford to purchase a home and make the necessary mortgage payments without Agency financial assistance. Qualifying properties must be single-family homes, condominiums, or townhomes located within the City of Costa Mesa and purchased for owner-occupancy at an Affordable Housing Cost.

The Program is funded by the Costa Mesa Redevelopment Agency, City of Costa Mesa, California, a public body corporate and politic, (“Agency”) through its Low and Moderate Income Housing Fund (“Housing Fund”) established by the Agency to increase, improve, and preserve the community’s supply of Low and Moderate Income housing available at an Affordable Housing Cost. Agency Loan funds are combined with the funds of participating Low to Moderate Income home buyers to enable the households to qualify for a First Trust Deed Loan and to achieve affordable home ownership. The Program is carried out and supervised by the Agency’s Program Director and implemented on a day-to-day basis by the Program Administrator in cooperation with participating private institutional lender(s).

B. Basic Structure. The basic structure of Program is as follows:

1. First Trust Deed Loan. Participating homebuyers must qualify for a “First Trust Deed Loan”, i.e., a fixed-rate, level-payment, 30-year first mortgage loan with a private institutional lender approved by the Agency.

a. Refinancing. Refinancing of the First Trust Deed Loan will be permitted only upon express written approval by the Program Director, which pre-approval is and shall be a material prerequisite to any type of refinancing or modification of the First Trust Deed Loan and which approval shall be within the sole discretion of the Program Director and subject to the terms of the Agency Loan (i.e., payments commence in year 30.) An approved refinancing does/will not trigger repayment of the Agency Loan, including principal and Equity Sharing Payment.

b. Restrictions on Terms of Refinancing. The structure of an approved refinancing of the First Trust Deed Loan may for a term less than 30 years, but the following business terms or structure for any proposed refinancing are strictly enforced by Program Director:

(i) no increase in the principal (except by the amount of reasonable closing costs for one pre approved re-financing as determined by Program Director);

- (ii) first mortgage remains and continues fully amortizing;
- (iii) no cash/equity withdrawal;
- (iv) no variable interest rate;
- (v) no negative amortization in connection with such proposed refinancing;
- (vi) no interest only payment structure; and
- (vii) no subordination of the Agency Loan below second lien position.

2. Agency Loan. The Agency Loan will be provided pursuant to the terms and conditions of the Agency's standard form Loan Agreement and shall be evidenced by a Promissory Note and secured by a Second Deed of Trust, including other Agency Loan Documents implementing the Program. The maximum loan amount will be established by the Agency on an annual basis by property type, but will, in no case exceed \$240,000. The principal amount disbursed under the Promissory Note for Participant's purchase of the Property will accrue zero (0%) interest.

The Agency Loan shall be repaid and due upon the following:

- a. the principal (and Equity Sharing Payment) shall be due in full upon the *earlier* to occur of:
 - (i) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director (inclusive of the transfer/conveyance of the Property upon or in connection with death(s) of [both] Participant(s) through a trust, will, or other estate planning or probate event), or
 - (ii) default by Participant on the Agency Loan; and/or, as applicable;
- b. if the Agency Loan has not repaid by the 30th anniversary of the Recordation Date based on the occurrence of (a)(i) or (ii) in the preceding subsections, then the principal shall become fully amortized and fixed, level monthly payments shall commence and be due and payable on the first of each month with amortization based on fifteen years remaining on the Term of the Agency Loan; and/or, as applicable,
- c. if the First Trust Deed Loan is paid off by Participant sooner than the 30th anniversary of the Recordation Date, then after the First Trust Deed Loan is repaid commencing with the next following anniversary of the Recordation Date and continuing through to the end of the 45-year Term of the Agency Loan the principal shall become fully amortized and fixed, level monthly payments shall commence and be due and payable on the first of each month with amortization based on years remaining between payoff of the First Trust

Deed Loan (prior to such 30th anniversary) and the end of the 45-year Term of the Agency Loan.

The Equity Sharing Payment due hereunder shall be due and payable as provided in the following section.

3. *Equity Sharing Payment.* In addition to the principal amount disbursed under the Promissory Note for Participant's purchase of the Property, which shall be due and payable as described in the above paragraph, each Participant shall pay to the Agency an Equity Sharing Payment, if any, which amount is equivalent to a percentage share of the appreciation in the value of the Property based upon the proportionate share of the Agency Loan to the original purchase price for the Property.

The Equity Sharing Payment shall be due in full upon the following:

- a. the *earlier* to occur during the 45-year Term of the Agency Loan of either:
 - (i) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director; or
 - (ii) default by Participant on the Agency Loan; and/or, as applicable
- b. if the Equity Sharing Payment did not become due and repaid by the 30th anniversary of the Recordation Date due to the occurrence of (a)(i) or (ii) in the preceding subsections, then commencing on the 30th anniversary of the Recordation Date and continuing for each of the fifteen (15) years remaining on the 45—year Term of the Agency Loan, one-fifteenth (1/15) of the amount due as the Equity Sharing Payment will be discharged and forgiven, such that in the event Participant owns and occupies the Property for the full 45-year Term of the Agency Loan, then the terms and conditions of the obligation to make the Equity Sharing Payment will have been fulfilled and the Equity Sharing Payment obligation will be have been fully discharged and forgiven.
- c. if during the 30th and 45th years of the Term of the Agency Loan either and the earlier of the following occur:
 - (i) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director, or
 - (ii) default by Participant on the Agency Loan, then the balance of the Equity Sharing Payment (as then calculated) shall become due and payable upon such event.

In summary, in the event Participant owns and occupies the Property for the full 45-year Term of the Agency Loan, then the terms and conditions of the Agency Loan

will have been fulfilled based on full repayment of the principal due on the Agency Loan and discharge and earn-out of the Equity Sharing Payment obligation.

C. Definitions. The capitalized terms set forth in these Program Guidelines shall have the following meanings:

1. **“Affordability Period”** or **“Term of Agency Loan”** or **“Term”** all have the same meaning and shall mean that period commencing upon the Recordation Date of the Agency Loan and terminating on the *earlier* to occur of (i) full repayment of the Agency Loan, including the principal and the Equity Sharing Payment, due upon the first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director, or (ii) default and full repayment of the Agency Loan, including the principal and Equity Sharing Payment; or (iii) the 45th anniversary of the Recordation Date.

2. **“Affordable Housing Cost”** shall mean and be as defined in Health & Safety Code Section 50052.5 (or any amendment or successor statute thereto) and implementing regulations thereto in Title 25 of the California Code of Regulations. The term monthly housing cost means all of the following associated with the Property: (i) principal and interest payments on a mortgage loan, and any loan insurance fees associated therewith; (ii) property taxes and assessments; (iii) fire and casualty insurance covering replacement value of property improvements; (iv) homeowner association fees, if any; and (v) a reasonable utility allowance.

As of the date of the Guidelines Affordable Housing Cost for Low to Moderate Income Households is defined by statute as follows:

- a. *Moderate Income Household.* Minimum housing cost cannot be less than twenty-eight (28%) of the gross income of the household nor exceed the product of thirty-five percent (35%) times one hundred ten percent (110%) of area median income adjusted for family size appropriate for the unit.
- b. *Lower Income Household.* Maximum housing costs cannot exceed thirty percent (30%) times seventy percent (70%) of the area median income adjusted for family size appropriate for the unit.
- c. *Very Low Income Household.* Maximum housing costs cannot exceed thirty percent (30%) times fifty percent (50%) of the area median income adjusted for family size appropriate for the unit.
- d. *Adjusted for family size appropriate to the unit* means the following:

Studio	=	One person household
One bedroom	=	Two person household
Two bedrooms	=	Three person household
Three bedrooms	=	Four person household
Four bedrooms	=	Five person household

3. **“Agency”** means the Costa Mesa Redevelopment Agency, City of Costa Mesa, California, a public body, corporate and politic created pursuant to and exercising powers conferred by the Redevelopment Law.

4. **“Agency Loan”** means the homebuyer assistance and shared appreciation loan by the Agency to the Participant, which in no event shall exceed a principal amount of \$240,000 plus the lien for the Equity Sharing Payment, and is more fully defined and described in Section I.B.2. above.

5. **“Agency Loan Documents”** means those documents evidencing, securing, and implementing the Agency Loan.

6. **“Applicant Affidavit”** means an affidavit substantially in the form attached to this Manual as Exhibit “E” required to be completed by each household applying to participate in the Program. Each Applicant Affidavit shall be signed by the applicant (all persons who will hold title to the Property) under oath and subject to penalty of perjury. The Applicant Affidavit serves as the initial application to the Program and is a representation regarding each and all members who comprise the Low to Moderate Income Household applying for an Agency Loan. Each Applicant Affidavit shall be considered representations and warranties by the applicant as to the current status and make-up of their household, their Gross Household Income, their liquid assets, their prior ownership of real property history, etc. and each such fact or informational item affirmed shall be considered an ongoing representation and warranty and if the applicant’s status changes, or any information provided is incorrect or requires update, then the applicant shall inform Program Director and Program Administrator in writing of any material change pertaining to any matters set forth or referenced in the Applicant Affidavit.

7. **“Buyer”** means the person or entity to which the Participant will sell, transfer, or otherwise convey the Property upon the first resale or full or partial transfer or conveyance of the Property.

8. **“City”** means the City of Costa Mesa, a California municipal corporation.

9. **“Declaration of Covenants, Conditions & Restrictions”** or **“Declaration”** or **“CCRs”** all have the same meaning and shall mean the Declaration of Covenants, Conditions & Restrictions which sets forth certain covenants with respect to the use, owner-occupancy, and maintenance of the Property during the Term of the Agency Loan, which will be recorded against the Property in connection with the Agency Loan.

10. **“Deed of Trust”** or **“Agency Deed of Trust”** have the same meaning and shall mean the Deed of Trust and Rider thereto to be executed by Participant as

Trustor in favor of the Agency to be recorded as a second lien against the Property securing the Promissory Note for the Agency Loan, including the principal of the Agency Loan and the Equity Sharing Payment.

11. **“Eligible Households”** or **“Eligible Applicants”** means persons or Households whose Gross Household Income does not exceed 120% of area median income for Orange County, adjusted for family size, and meet the criteria for participation in the Program, and who are in the process of securing a First Trust Deed Loan to purchase an eligible Property. means persons or Households whose Gross Household Income does not exceed 120% of area median income for Orange County, adjusted for family size and who are qualified applicants to the Program.

12. **“Equity Sharing Payment”** is defined in Section I.B.3. above.

13. **“First Trust Deed Loan”** is defined in Section I.B.1. above.

14. **“Gross Household Income”** means the income of all (i) members of the Eligible Household over the age of eighteen (18) and (ii) persons who will hold title to the Property. Gross Household Income shall be calculated in accordance with Title 25 Cal. Code of Regulations Section 6914, as more fully set forth in Exhibit B, Determination of Gross Household Income.

15. **“Gross Income”** means the anticipated income of a person or family for the 12-month period following the date of determination of Gross Household Income, as more fully set forth in Exhibit B, Determination of Gross Household Income.

16. **“Household”** means all persons who will occupy the dwelling unit located on the Property whether it be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements provided that all the terms and conditions of the Program are met.

17. **“HQS Occupancy Standard”** or **“HQS occupancy standard”** means the maximum number of occupants who may reside at the Property at any time during the Term of the Agency Loan, which in no event shall exceed two (2) persons per each living and sleeping area of the Property (excluding kitchen, bathroom(s), hallways, other non-living/sleeping areas.) For example, a house with two bedrooms and a living room (but no family room/den) would be limited to occupancy by six persons; a house with three bedrooms, a separate living room, and a separate family room/den would be limited to occupancy by ten persons, etc. The HQS occupancy standard is set forth in and established by United States Department of Housing and Urban Development (HUD) and as of the date of these Guidelines the current HQS occupancy standard is two (2) persons per each living and sleeping area in a home/dwelling.

18. **“Lender”** means the private lender approved by the Program Administrator and that provides the First Trust Deed Loan. Each Lender shall be a federally regulated and insured financial lending institution or a licensed mortgage broker with a current and valid license from the California Department of Real Estate that meets

all of the requirements established by the Agency to participate as a Lender in the Program and has entered into a Lender Participation Agreement acceptable to the Agency.

19. ***“Loan Agreement”*** means the Homebuyer Assistance Program Loan Agreement by and between the Agency and the Participant.

20. ***“Low Income Household”*** or ***“Lower Income Household”*** shall mean lower income households as defined in Health & Safety Code Section 50079.5 and include a person, family, or household earning not greater than eighty percent (80%) of Orange County median income adjusted for family size as determined by HCD and in conformity with Redevelopment Law. Lower Income Households include very low-income households, as defined in Health & Safety Code Section 50105, and extremely low-income households, as defined in Health & Safety Code Section 50106.

21. ***“Low to Moderate Income Household”*** shall mean a person, family, or household earning not greater than that percentage of Orange County area median income (generally 120%), adjusted for household size, which is set forth by regulation of the California Department of Housing and Community Development (HCD) pursuant to Health and Safety Code Section 50093. The term Low to Moderate Income Household is inclusive of a Moderate Income Household, a Lower Income Household, and a Very Low Income Household.

22. ***“Moderate Income Household”*** shall mean a person, family, or household earning not greater than one hundred and twenty percent (120%) of Orange County area median income, adjusted for household size appropriate to the unit, which is set forth by regulation of the California Department of Housing and Community Development (HCD) pursuant to Health and Safety Code Section 50093.

23. ***“Note Amount”*** means both the principal amount loaned by the Agency to Participant as the homebuyer assistance loan, which amount shall in no event exceed \$240,000, and the Equity Sharing Payment amount due under such the Note evidencing the Agency Loan.

24. ***“Owner-Occupant”*** or ***“Owner-Occupancy”*** means occupancy of the Property by the original person(s) who comprise the Participant. There shall be no change in persons named as Participant and who are the party(ies) to the Program documents, including without limitation the Loan Agreement, without the prior express written consent of Program Director in his/her sole discretion.

25. ***“Ownership Interest”*** means an ownership interest in the Property, as follows:

- a. *Types of Ownership Interests.* The Low to Moderate Income Household that becomes a Participant in the Program and receives an Agency Loan shall own and occupy the Property. Title to the Property shall vest with Participant upon concurrent closing of the First Trust Deed Loan

and Agency Loan and Participant shall hold title in one of the following forms a. or b., and not in the form of c. below:

- (i) Fee simple: Fee simple interest in Property, as Participant's
 - (a) sole and separate property; or
 - (b) community property;
 - (c) joint tenants; or
 - (d) tenants in common; or
 - (e) as trustors and beneficiaries of a family trust, subject to the requirements in the following subsections.

- (1) if the Property is to be held as an asset of a family trust established for estate planning purposes, then the Eligible Applicant shall be required as a part of the application process to submit true and correct copies of the trust agreement that evidences to the reasonable satisfaction of Program Administrator the authority to encumber the Property with the Agency Loan (and First Trust Deed Loan), including:

- (A) that the Eligible Applicant is/are parties to the trust agreement, the Property will be owned in fee by the trust;

- (B) that trustors will be the Owner Occupants of the Property; and

- (C) that the Eligible Applicant has/have full power and authority to acquire the Property, to encumber the Property, to enter into the First Trust Deed Loan and Agency Loan, to sign the Applicant Affidavit and all Agency Loan Documents, and fully obligate the Eligible Applicant to participate in the Program.

- (ii) Leased Land. Fee simple interest in the improvements (dwelling) and leasehold interest under a long-term ground lease for the land upon which the improvements are constructed and exist, i.e., as a lessee of a long-term ground lease. Eligible Applicants who propose to buy a Property with fee ownership of improvements and situated on leased land (versus fee simple ownership of land and improvements) are not disqualified from application, and such application may be considered, so long as the remaining term of the ground lease for the leased land upon which the improvements

(dwelling) are situated is for a term that is not less than one and one-half (1½) times longer than the term of the First Trust Deed mortgage.

(iii) Excluded Types of Ownership/Vesting. Ownership of the Property shall not and does not include a remainder interest, a lease with or without an option to purchase, an expectancy to inherit an interest in real property or any interest acquired upon the execution of a purchase contract.

26. **“Participant”** means the participating homebuyer that purchases the Property and obtains an Agency Loan from the Agency through this Program.

27. **“Program”** means the Costa Mesa Homebuyer Assistance Program adopted by the Agency on _____, 2005 pursuant to Resolution No. _____.

28. **“Program Administrator”** means the Agency staff person or an independent contractor hired by the Agency, if any, charged with the day-to-day administration, implementation, and enforcement of the Program.

29. **“Program Director”** means the Agency’s Executive Director or his/her authorized designee, including by this designation and delegation the City’s Neighborhood Improvement Manager. The Program Director is charged with supervision, management, and overall decision-making authority to implement the Program, including making non-material interpretations, waivers, amendments, modifications, and corrections to Program documents, so long as no such decision substantively modifies the Program and its business points and structure as approved by the Agency Board.

30. **“Program Guidelines”** or **“Guidelines”** have the same meaning and shall mean these Costa Mesa Homebuyer Assistance Program Guidelines approved by the Agency and implemented by the Program Director, Program Administrator, and other Agency and City staff, including any and all amendments by the Agency Board thereto and any authorized modifications by the Program Director that are within the scope of his/her authority to so modify.

31. **“Promissory Note”** or **“Note”** have the same meaning and shall mean the Agency Loan and Equity Sharing Payment Promissory Note evidencing the Agency Loan, which shall in no event exceed an original principal amount of \$240,000 and the obligation to pay the Equity Sharing Payment.

32. **“Property”** means the real property, including land and improvements, located at in the City of Costa Mesa, County of Orange, State of California that Participant purchases and for which Participant obtains a First Trust Deed Loan and Agency Loan pursuant to this Program (and, as applicable, a SFRGLP loan.) Each Property is required to be an eligible single-family residence, as further described herein.

33. **“Purchase Price”** means the *original* purchase price paid by the Participant to the Seller for Seller’s interest in the Property, exclusive of escrow fees, title

insurance costs, broker's commission, loan fees or any other closing or transaction costs.

34. "Recordation Date" means the date of recording in the Official Records of the County of Orange, California of the Deed of Trust securing the Agency Loan.

35. "Redevelopment Law" means the California Community Redevelopment Law, Health & Safety Code Sections 33000, *et seq.* as the same now exist or may hereafter be amended.

36. "Sales Price" means the price to be paid by the Buyer of the Property to Participant for Participant's interest in the Property, exclusive of reasonable escrow fees, title insurance costs, broker's commissions, loan fees or any other closing or transaction costs. In the event the Agency Loan becomes due and payable due to an event other than resale of the Property to a Buyer (for example due to a non-approved refinancing or default under the Agency Loan), then the Sales Price shall be the appraised value of the Property as of such date of acceleration and due date of the Agency Loan, as determined by a qualified independent appraiser paid for by the Participant. The Sales Price (or appraised value of the Property) is used in the formula for calculation of the amount of the Equity Sharing Payment due during the Term of the Agency Loan.

37. "Seller" means the person or entity from which the Participant originally purchased the Property.

38. "Very Low Income Household" shall mean a household earning not greater than that percentage of Orange County area median income (generally 50%), adjusted for household size, which is set forth by regulation of the California Department of Housing and Community Development, pursuant to Health and Safety Code Section 50103.

II. ELIGIBILITY CRITERIA

A. Eligible Households and Eligible Participants

1. *Income Limits.* In order to qualify for Program assistance, an applicant must be a Low to Moderate Income Household, which household's total combined gross household income cannot exceed one hundred twenty percent (120%) of area median income for Orange County adjusted for family size as set forth in Exhibit "A" attached hereto. Income limits are published by the California Department of Housing and Community Development and are adjusted and promulgated annually. Ownership of other real property disqualifies an applicant for participation in the Program. Gross Household Income shall be calculated in accordance with Title 25 of the California Code of Regulations Section 6914, as set forth in Exhibit "B" attached hereto.

2. *Eligible Homebuyer Status.* Eligible Households may apply to participate in the Program and shall include Low to Moderate Income households who have not owned a present ownership interest in real property during the last three (3) years. In

addition, Displaced Households and Displaced Homemakers (defined in next paragraph) who meet the income eligibility criteria may participate in the Program without regard to previous home ownership.

For purposes of the Program, a “Displaced Household” is one who is relocated by the Agency as part of a redevelopment project. A “Displaced Homemaker” is an individual who (a) is an adult; (b) has not worked full-time, full-year in the labor force for a number of years but has, during such years, worked primarily without remuneration to care for the home and family; and (c) may be unemployed or underemployed and experiencing difficulty in obtaining or upgrading employment.

3. *Liquid Assets.* Eligible Households who apply to participate in the Program shall meet the Agency’s liquid asset requirements. Household assets cannot exceed the combined total of (i) Participant’s downpayment (which shall be at least 3% and not more than 20% of the purchase price), plus (ii) estimated closing costs, plus (iii) six (6) months housing costs, plus (iv) \$10,000. Household assets shall be calculated in accordance with Title 25 Cal. Code Regs Section 6914(a) as set forth in Exhibit "B" attached hereto.

4. *Credit Worthiness.* Eligible Households for participation in the Program shall have (i) an acceptable credit “score” and a minimum credit rating of “fair” as defined by the Program Administrator and (ii) sufficient credit worthiness to qualify for and obtain First Trust Deed financing as determined by the participating institutional lender.

5. *Legal Residency.* Eligible Households who apply to participate in the Program must evidence to Program Administrator that the household lawfully resides in the United States. All selected Participants for the Program must legally reside in the United States.

6. *Co-Signor(s) on Agency Loan Prohibited.* Each applicant to the Program shall qualify and meet underwriting criteria based on the applicant Low to Moderate Income Household’s income and assets and not based on the income, assets, gift, or other remuneration provided by any relative, friend, or other third party.

7. *General Eligibility.* No member of the governing board of the City or the Agency and no other official, employee, or agent of the City or Agency who exercises any policy or decision-making function in connection with the Program shall directly or indirectly be eligible for Program assistance.

8. *Non-Participation in Other City Program(s).* Participants receiving an Agency Loan under the Program are ineligible to participate in another, if any, City or Agency homebuyer assistance program. Applicants to the Program who have already participated in, or received funding from, another City or Agency homebuyer or housing loan assistance program, are not eligible to apply for the Program.

B. Eligible Property

1. *Type of Single-Family Residence*

a. *Eligible Residence.* Program assistance will be available to purchase a Property at an Affordable Housing Cost that is a single-family detached house, condominium, or townhome. Only single-family houses, condominiums, and townhouses are eligible residences under this Program.

b. *Ineligible Residence.* Duplexes or multi-family apartments property are excluded. Mobilehomes whether affixed or not affixed to a permanent foundation, manufactured houses, and recreational vehicles, campers, or similar vehicles are not considered residential property and are ineligible for the Program.

2. ***Location.*** Program assistance is available only in connection with the purchase of eligible residential properties located in the City of Costa Mesa (excluding unincorporated areas.)

3. ***Property Condition; Correction of Deficiencies.*** Each Property selected for the Program by a Participant prior to the close of escrow must be inspected by an independent, certified third-party home inspector at Participant's or Seller's expense (and such expense shall not be a loan expense or Agency expense.) The condition of the Property as reported by such independent home inspector must satisfy the standards of the institutional lender funding the First Trust Deed loan. In addition, any serious building or other local code violation(s) or other health and safety deficiency(ies) reported by such home inspector must be corrected as a condition precedent to funding the Agency Loan. The determination of whether a condition is a serious violation or a health and safety deficiency shall be and remain in the discretion of the Program Director.

4. ***Concurrent Application to and Participation in Agency's Single Family Rehabilitation Grant and Loan Program.*** Agency also has adopted and in place the Costa Mesa Single Family Rehabilitation Grant and Loan Program ("SFRGLP"), which provides financial assistance for rehabilitation improvements to eligible single-family owner-occupied properties. The primary objectives of the SFRGLP are to correct non-conforming uses, remedy code violations, and generally repair and improve deteriorating properties in an effort to provide decent housing and a suitable living environment for Low to Moderate Income Households.

a. *Timing and Maximum Agency Loan Amount.* In connection with the inspection and evaluation of the condition of the Property for which an Agency Loan may be provided under this Program, applicants may concurrently or within six (6) months of acquisition of the Property apply to and participate in the SFRGLP. As a part of this Program, an applicant may request, apply to, and participate in the SFRGLP, subject to compliance with all of the SFRGLP's policies and procedures. In no event shall the cumulative amount of funds loaned by Agency (or City) under the Program for the Agency Loan and under the SFRGLP for rehabilitation of the Property exceed a total of \$240,000. Therefore, in the event a Participant anticipates it may wish to apply for participation in both this Program and in the SFRGLP, then Participant shall reasonably consider the type of Property to be acquired and cumulative funds that Participant may desire to borrow

through the Program and the SFRGLP because in no event shall the cumulative principal amount loaned through both this Program and the SFRGLP exceed \$240,000.

b. *Lien Priority.* Further, in the event Participant applies to and obtains a SFRGLP loan, then the lien priority of such SFRGLP loan shall be third position, junior and subordinate to the Agency Loan (second lien) and the First Trust Deed Loan (first lien).

c. *Coordination and Oversight of SFRGLP through Program Director.* The scope of the rehabilitation improvements approved under the SFRGLP and the disbursements from both this Program for acquisition of the Property and from the SFRGLP for rehabilitation shall be coordinated and overseen by the Program Director.

5. *Purchase Price.* Subject to all other Program requirements, in particular that Participant meet the Affordable Housing Cost requirement for monthly housing cost, the maximum purchase price for an eligible Property shall be adjusted annually each September based on and corresponding to the median purchase price for single family houses in the City of Costa Mesa as published by Stewart Title Company (or another comparable, reputable index) based on median values for the last three months of the prior calendar year (As of September 2008, the maximum purchase price for an eligible Property is \$540,000, but this number will be subject to adjustment annually.)

6. *Ownership Interest in Property.* The Low to Moderate Income Household that becomes a Participant in the Program and receives an Agency Loan shall own and occupy the Property. Title to the Property shall vest with Participant upon concurrent closing of the First Trust Deed Loan and Agency Loan and Participant shall hold and continue to hold title during the Term of the Agency Loan in one the approved Ownership Interest categories defined above. Participant shall not change the vesting of the Property or names of Participant who hold title to the Property during the Term of the Agency Loan without first obtaining the express written consent of Program Director, which consent may or may not be provided in his/her sole discretion.

III. AFFORDABLE HOUSING COST. California Redevelopment Law establishes the maximum allowable amount qualified Participants may pay for housing related expenses (including principal, interest, taxes, insurance, homeowner association dues, and a reasonable utility allowance) to qualify and participate in the Program. Affordable Housing Cost shall be as defined in Health & Safety Code Section 50052.5 (or any amendment or successor statute thereto) and implementing regulations thereto in Title 25 of the California Code of Regulations.

IV. COVENANTS AND RESTRICTIONS. Agency Loans are made subject to the Declaration of Covenants, Conditions & Restrictions, which include obligations and provisions relating to ongoing maintenance of the Property, owner-occupancy, prohibited uses and restrictions on criminal activity, nuisance, etc., and affordability covenants. The Declaration is recorded against each Property purchased by a Participant with Program funds, and the Declaration remains in effect for the Term of the Agency Loan.

A. Maintenance and Prohibition of Criminal Activity Covenants. The Declaration includes covenants imposing ongoing maintenance and upkeep of the Property, generally requiring each Participant to maintain the Property, both land and improvements, and the exterior and interior, in good physical condition.

Further the Declaration imposes covenants prohibiting criminal activities at the Property, including keeping the Property free from gang or drug-related activities, other felonious criminal activity, and public or private nuisances. These covenants run for the Term of the Agency Loan.

B. Owner-Occupancy Covenant. Every Participant in the Program is required to own and occupy, and to continue to own and occupy, the Property as their principal, permanent residence. Program Participants are required to submit an annual affidavit of occupancy and continuing Program compliance as a part of the Agency Loan implementation.

1. HQS Occupancy Standard. Further, in connection with Participant's occupancy of the Property Participant shall comply with and continue to comply with the HQS standard, which standard establishes a maximum occupancy of persons living at the Property for the Term of the Agency Loan.

C. Term of Declaration. During the Term of the Agency Loan and Affordability Period of the Declaration, a Participant may pay off the Agency Loan and "buy-out" and cause release of the Declaration in order to (i) rent the Property without restriction to a prospective renter/lessee, or (ii) sell the Property without restriction to a prospective buyer, or (iii) refinance the First Trust Deed in a manner not approved by the Program Director, or (iv) incur additional debt, such as a line of credit, third or fourth trust deed, or other encumbrance, or (v) otherwise exit out the Program as a Participant, expressly subject to and so long as Participant pays in full both (i) the principal amount of the Agency Loan, and (ii) the Equity Sharing Payment, which is a percentage share of the appreciation in the Property (if any) to the Agency.

D. Calculation of Equity Sharing Payment. The Equity Sharing Payment due shall be and shall be calculated as a percentage share of the appreciation in the value of the Property determined by the proportionate share of the Agency Loan to the original purchase price paid Seller in accordance with the following formula:

1. Formula. Agency Loan amount ÷ [divided by] original Purchase Price = an Applicable Factor as a percentage; then, the Applicable Factor x [multiplied by] Gain [Gain = Sales Price - [less] original Purchase Price] = Equity Sharing Payment.

In the event that the Equity Sharing Payment becomes due and calculable between the 31st anniversary and the 45th anniversary of the Recordation Date, then the "earn-out" amount described in Section V.C. below shall also be a part of the calculation and application of the formula to determine the amount of the Equity Sharing Payment due by Participant.

For example: If the amount of the Agency Loan equals \$200,000 and Participant paid \$400,000 as the original Purchase Price for the Property, then the Applicable Factor or percentage would be 50% ($\$200,000 \div \$400,000$); then, upon repayment of the Agency Loan

prior to the end of the Term of the Agency Loan, the Agency will receive 50% of the Gain, i.e., a 50% share of the appreciation x (New Sales Price minus \$400,000).

Earn-out example: If the amount calculated results in an Equity Sharing Payment due of \$400,000, but such amount was due after the 31st anniversary but before the 32nd anniversary of the Recordation Date, then the amount of the Equity Sharing Payment would be \$373,200 (\$400,000 less 1/15 [\$26,800] Earn Out = \$373,200.)

The following table further illustrates calculation of an Equity Sharing Payment, calculated on an Agency Loan repayment due prior to the 30th anniversary of the Recordation Date during the Term of the Agency Loan.

	<i>Purchase Price in 2005</i>	<i>Sales Price (or appraised value) at time of resale in years 1-30</i>	<i>Gain</i>
Market Rate Value of Property	\$500,000	\$ 800,000	\$ 300,000
<u>Participant Gain X Applicable Factor Calculation = Equity Share Payment</u>			\$300,000 [Gain] x [times] 40% Appl.Fac. = \$120,000
1 st Trust Deed Loan (Private Lender)	\$285,000	\$275,000*	
2 nd TD Payment (Agency Loan)	\$200,000		
Principal Balance		\$200,000	
Equity Share Payment		\$120,000	
Original Participant Equity (assumed 3% minimum downpayment/costs paid)	\$15,000	\$15,000	
Total Sales Price Offsets		\$610,000	
Net Participant Gain		\$190,000	
Monies Repaid to Agency's Housing Fund		\$320,000	

* presumes \$10,000 of First Trust Deed Loan has been paid down by Participant at time of resale.

V. FINANCING FOR AGENCY LOAN

A. Minimum Downpayment Contribution by Participant. All Participants in the Program shall contribute a down payment of not less than three percent (3%) and not more than twenty percent (20%) of the Purchase Price of the Property, plus closing costs. All Participants must obtain a First Trust Deed Loan. A Participant's downpayment (minimum 3% and maximum 20%) shall not be derived from the proceeds of a loan or a gift. The

availability of funds must be evidenced by a checking or savings account statement and verified through the liquid assets requirements set forth herein.

B. First Deed of Trust Loan. All Program Participants must obtain a First Trust Deed Loan from a private lending institution approved by Program Administrator. This initial first mortgage must be a 30-year fixed rate, level payment mortgage. Each Participant shall obtain the maximum First Trust Deed Loan amount that can be supported by and in conformity with the definition of Affordable Housing Cost. The Lender for the First Trust Deed Loan shall determine the amount and terms of the first mortgage based on its own underwriting criteria. The financial criteria used by the Lender may be different and possibly more stringent than the asset test and underwriting criteria used by Program Administrator.

C. Second Deed of Trust (Agency Loan). Maximum Agency Loan Amount. The maximum principal amount of the Agency Loan to assist Participant to purchase of Property at an Affordable Housing Cost shall in no event exceed is \$240,000. In order to allow Eligible Households meeting all other Program criteria to participate in the Program, the Program Administrator, with approval of Program Director, may permit the Agency Loan to finance all or a portion of the non-recurring closing costs, subject to the approval by the Lender for the First Trust Deed Loan and so long as the maximum Agency Loan amount does not exceed \$240,000.

1. Principal Repayment. The Agency Loan shall be repaid and due upon the following: (1) the principal (and Equity Sharing Payment) shall be due in full upon the *earlier* to occur of: (a) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director, or, (b) default by Participant on the Agency Loan; and/or, as applicable, (2) if the Agency Loan has not repaid by the 30th anniversary of the Recordation Date based on the occurrence of (1)(a) or (b) in the preceding clause, then the principal shall become fully amortized and fixed, level monthly payments shall commence and be due and payable on the first of each month with amortization based on fifteen years remaining on the Term of the Agency Loan; and/or, as applicable, (3) if the First Trust Deed Loan is paid off by Participant sooner than the 30th anniversary of the Recordation Date, then after the First Trust Deed Loan is repaid commencing with the next following anniversary of the Recordation Date and continuing through to the end of the 45-year Term of the Agency Loan the principal shall become fully amortized and fixed, level monthly payments shall commence and be due and payable on the first of each month with amortization based on years remaining between payoff of the First Trust Deed Loan (prior to such 30th anniversary) and the end of the 45-year Term of the Agency Loan.

2. Equity Sharing Payment. The Second Deed of Trust securing the Agency Loan shall include the lien for the Equity Sharing Payment due under the Note, subject to the “earn-out” of such amount commencing in year-30 of the Term of the Agency Loan.

a. Earn-Out Credits. Commencing on the 30th anniversary of the Recordation Date and continuing through to the end of the Term of the Agency Loan (45th year), one-fifteenth (1/15) of the amount due as an Equity Sharing Payment under the Note evidencing the Agency Loan shall be “earned-out”, deemed discharged, and forgiven. In the event that Participant

owns and occupies the Property and fully complies with the Program and all Agency Loan Documents, then, based on fifteen years of Earn Out Credits, at the end of the Term of the Agency Loan no Equity Sharing Payment will be due by Participant.

b. *Payment.* The Equity Sharing Payment shall be due in full upon the following: (1) the *earlier* to occur during the 45-year Term of the Agency Loan of either: (a) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director, or, (b) default by Participant on the Agency Loan; and/or, as applicable, (2) if the Equity Sharing Payment did not become due and repaid by the 30th anniversary of the Recordation Date due to the occurrence of (1)(a) or (b) in the preceding clause, then commencing on the 30th anniversary of the Recordation Date and continuing for each of the fifteen (15) years remaining on the 45—year Term of the Agency Loan, one-fifteenth (1/15) of the amount due as the Equity Sharing Payment will be discharged and forgiven, such that in the event Participant owns and occupies the Property for the full 45 year Term of the Agency Loan, then the terms and conditions of the obligation to make the Equity Sharing Payment will have been fulfilled and the Equity Sharing Payment obligation will be have been fully discharged and forgiven. If during the 30th and 45th years of the Term of the Agency Loan either and the earlier of the following occur: (a) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director, or, (b) default by Participant on the Agency Loan, then the Equity Sharing Payment shall become due and payable upon such event.

In summary, in the event Participant owns and occupies the Property for the full 45 year Term of the Agency Loan, then the terms and conditions of the Agency Loan will have been fulfilled based on full repayment of the principal due on the Agency Loan and discharge and earn-out of the Equity Sharing Payment obligation.

3. *Interest Rate.* The principal amount of the Agency Loan shall accrue zero percent (0%) interest (subject to the obligation to make the Equity Sharing Payment.)

4. *No Assignment and No Assumption of Agency Loan.* The Agency Loan is not assumable or assignable.

5. *Default.* Each of the following are an event of “default” under the Agency Loan: (a) failure to occupy the Property as Participant’s permanent, principal residence; (b) non-compliance with the Declaration; (c) refinancing without express pre-approval of Program Director; (d) non-performance or default under any other Agency Loan Documents; (e) defaults in payments on the First Trust Deed Loan, including failure to pay property taxes and/or hazard insurance. Any default under any Agency Loan Documents or the First Trust Deed Loan shall cause acceleration of the Agency Loan and may result in foreclosure.

a. *Exception:* Participants may request temporary waiver of the principal residence requirement in situations involving extreme hardship as

determined by the Program Director in his/her sole and absolute discretion. Extreme hardship shall be satisfactorily evidenced by Participant to Program Director and may consist of a transfer of career location, loss of job or unexpected expenses which force a move to a less expensive arrangement or other events of this nature, as such extreme hardship is determined in Program Director's sole and absolute discretion. However, rental of the Property shall be prohibited without the express written consent of the Program Director and such rental shall not exceed the term determined by the Program Director at the time of Participant's request and in no event to exceed five (5) years. If allowed, rental shall be permitted only to Low or Moderate Income persons at affordable rent pursuant to Health & Safety Code Section 50053 (or amended or successor statute thereto) depending upon the income category of the Participant, the Participant's monthly housing cost and applicable market rents.

6. *Refinancing; Subordination; Re-Affirmation of Subordination: Acceleration and Resale.* The Agency Loan will be subordinate to the Lender's First Trust Deed Loan, and Agency will re-affirm its subordinate, second lien position to the Lender for the First Trust Deed Loan upon a refinancing pre-approved by the Program Director.

Refinancing of the First Trust Deed Loan will be permitted only upon express written approval by the Program Director, which pre-approval is and shall be a material prerequisite to any type of refinancing or modification of the First Trust Deed Loan and which approval shall be within the sole discretion of the Program Director. The structure of an approved refinancing of the First Trust Deed Loan may for a term less than 30 years, but the following business terms or structure for any proposed refinancing are *strictly prohibited* and will not be approved by Program Director: (a) no increase in the principal (except by the amount of reasonable closing costs for one pre-approved re-financing as determined by Program Director); (b) first mortgage remains and continues fully amortizing, (c) no cash/equity withdrawal; (d) no variable interest rate; (e) no negative amortization in connection with such proposed refinancing; (F) no interest-only payment structure, and (g) no subordination of the Agency Loan below second lien position.

The Agency will not subordinate below second lien position. Participant is expressly prohibited from placing any subordinate lien(s) or encumbrances on the Property, such as third trust deed (except an approved lien for Participant's SFRGLP loan) or fourth trust deeds, equity line(s) of credit, or other financing products that encumber or cloud title to the Property. Participant allowing, causing, or otherwise incurring any other lien on the Property (other than the First Trust Deed Loan and the Agency Loan) shall be a default and basis to accelerate full repayment of the Agency Loan and the Equity Sharing Payment, if any.

In all other cases, refinancing shall cause acceleration and full repayment of the Agency Loan together with the Equity Sharing Payment, if any, as specified in the Agency Loan documents. In connection with a refinancing that triggers acceleration and payment of the Agency Loan and Equity Sharing Payment, an appraisal by an Agency-approved appraiser shall be conducted, at Participant's expense, to establish

the market rate value of the Property in order to calculate the “Sales Price” for application of the formula and determination of the amount of the Equity Sharing Payment, if any, due under the Agency Loan documents.

Properties acquired with Program funds shall not be sold for less than the sum of the existing First Trust Deed Loan and the Agency Loan (and SFRGLP loan, if any), encumbrances, and interest, including property tax liability, without the express written consent of the Program Director. In other words, any “short sale” of the Property is expressly prohibited.

VI. PROGRAM INFORMATION SHALL BE FACTUAL, TRUTHFUL AND PROVIDED UNDER PENALTY OF PERJURY

A. Complete and Accurate Submittals. Each and all applications, supplemental materials, facts relating to and copies of personal financial information, and any other information provided by an applicant, an Eligible Applicant, and/or a Participant in connection with the Program shall be true and correct to the best information and actual knowledge of such applicant, Eligible Applicant, and/or Participant.

B. Penalties. If any applicant, Eligible Applicant, and/or Participant willfully and knowingly makes a false statement or representation, or knowingly fails to disclose a material fact for the purpose of application to and qualifying for the Program, or, in completing certifications, affidavits, or recertification documents he/she/they will be subject to any and all legal remedies available under federal, state, and local laws, including applicable criminal and civil laws and regulations.

1. When completing any Program document, each applicant, Eligible Applicant, and Participant shall be aware that by completing, submitting, and/or signing any Program document he/she/they are acknowledging that any material misstatement, material omission, or fraud, in any such document is and will be made under penalty of perjury and subject each applicant, each Eligible Applicant, and each Participant to legal remedies available under applicable criminal and civil statutes.

VII. PROGRAM IMPLEMENTATION

A. Applicant Affidavits; Evaluation; Program Reservation; Processing. The Program is administered on a “first-come, first-serve” basis to interested persons who have attended a homebuyer seminar sponsored by Agency. There are no application cycles or deadlines, but no applicant affidavit will be considered until complete, as determined by the Program Administrator. The Program Administrator will review all applicant affidavits submitted and will notify all persons in writing of their eligibility or ineligibility.

Each applicant affidavit will reflect the time and date received. Only complete applicant affidavits will be evaluated. All information and data on the applicant affidavit shall be verified and verifiable. The applicant affidavit, together with other materials relating to eligibility will be maintained in an active file for each Eligible Household that applies to the Program. Applicants shall be required to provide federal and state income tax returns, bank statements, and related financial information for the previous three years and verification of

current Gross Household Income and liquid assets all related to evidencing and documenting eligibility for the Program.

B. Underwriting; Evaluation by Program Administrator. If the Lender for the First Trust Deed Loan approves such loan and applicant is able to enter into a purchase/sale agreement to acquire an eligible Property at an Affordable Housing Cost, Program Administrator will conduct a final review of the Agency Loan Documents package to ensure compliance with Program requirements. Upon final approval by the Program Administrator, Agency Loan documents will be prepared and submitted into escrow.

C. Housing Counseling. As an express condition precedent to obtaining an Agency Loan all Applicants are required to enroll, attend, and participate in one-on-one housing counseling session(s) with Agency staff designated by Program Director who will provide more specific information on the Program and Agency Loan. Applicants to the Program are informed that the housing counseling session(s) may be attended by one or more staff designated by Program Director and participation, attendance, and scope of the presentation for such session(s) may be more fully documented as a part of the Agency Loan application processing and Program files for each Eligible Applicant who becomes a Program Participant. Further, any housing counseling session(s) may be recorded by Program Director's designated staff (or caused to be recorded) through audio and/or video reproduction, such as tape recorded, video-taped, creation of a CD or DVD, or any other electronic or technology method to record and document housing counseling session(s). Each Applicant (all persons who comprise Applicant) may be required to sign an acknowledgement of their attendance at, participation in, and understanding of the housing counseling session(s), which form of acknowledgement will be prepared by Program Director.

D. Funding Approval. Final approval to participate in the Program is subject to the satisfaction of all required conditions and Program compliance. A minimum 45-day escrow is required for all Agency Loans under the Program.

E. Program Manual. Agency staff will maintain a Program Manual that further implements the Program and these Guidelines. In the event of an inconsistency between the Program Manual and these Guidelines, the Guidelines shall prevail.

F. Agency Board Delegation of Program Implementation to Program Director. Program Director shall maintain day-to-day administration of the Program and oversight of the Program Administrator. Agency delegates to Program Director the right to submit to the Agency Board consideration, input, and approval or disapproval of any applicant affidavit, or Program Reservation, and or Agency Loan, as Program Director reasonably considers necessary.

EXHIBIT A

2008 INCOME LIMITS¹

Income limits for Orange County pursuant to Section 6932 of Title 25 of the California Code of Regulations:

<i>Income Level</i>	<i>1 person household</i>	<i>2 person household</i>	<i>3 person household</i>	<i>4 person household</i>	<i>5 person household</i>	<i>6 person household</i>	<i>7 person household</i>	<i>8 person household</i>
<i>Extremely Low</i>	\$19,550	\$22,300	\$25,100	\$27,900	\$30,150	\$32,350	\$34,600	\$36,850
<i>Very Low</i>	\$32,550	\$37,200	\$41,850	\$46,500	\$50,200	\$53,950	\$57,650	\$61,400
<i>Lower</i>	\$52,100	\$59,500	\$66,950	\$74,400	\$80,350	\$86,300	\$92,250	\$98,200
<i>Median</i>	\$58,900	\$67,300	\$75,700	\$84,100	\$90,800	\$97,600	\$104,300	\$111,000
<i>Moderate</i>	\$70,600	\$80,700	\$90,800	\$100,900	\$109,000	\$117,000	\$125,100	\$133,200

¹ Income limits are subject to change, generally annually.

¹ Income limits are subject to change, generally annually.

EXHIBIT B

DETERMINATION OF GROSS HOUSEHOLD INCOME

Gross household income shall be calculated in accordance with Section 6914 of Title 25 of the California Code of Regulations and as generally set forth herein. "Gross income" shall mean the anticipated income of a person or family for the 12-month period following the date of determination of income. If the circumstances are such that it is not reasonably feasible to anticipate a level of income over a 12-month period may be used subject to a re-determination at the end of such period. "Income" shall consist of the following:

- (a) Except as provided in subdivision (b), all payments from all sources received by the family head (even if temporarily absent) and each additional member of the household who is not a minor and who share the same dwelling unit or share in the ownership of the unit, whether in cash or in kind, shall be included in the annual income of a family. Income shall include, but not be limited to:
 - (1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, and bonuses;
 - (2) The net income from operation of a business or profession, or from rental of real or personal property (for this purpose, expenditures for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business);
 - (3) Interest and dividends;
 - (4) The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts;
 - (5) Payment in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay, subject to (b)(3)., below (NOTE: Such payments may be excluded by the lending institution providing the first mortgage for purposes of underwriting, but shall be included in eligibility determinations for this Program);
 - (6) Public assistance; if the public assistance payment includes an amount specifically designated for shelter and utilities which is subject to adjustment by the public assistance agency in accordance with the actual cost of shelter and utilities, the amount of public assistance income to be included as income shall consist of:
 - A. The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus
 - B. The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities;
 - (7) Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;

EXHIBIT B

- (8) All regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family, spouse, or other person whose dependents are residing in the unit subject to 2.e., below;

Where the applicant household has net family assets in excess of \$5000, income shall include the actual amount of income, if any, derived from all of the net family assets or 10 percent of the value of all such assets, whichever is greater. For purposes of the Program, the following shall be considered net family assets:

- (1) cash savings;
 - (2) marketable securities, stocks, bonds, and other forms of capital investment, including tax exempt securities other than Individual Retirement or KEOGH plans;
 - (3) inheritance, lump sum insurance payments, already received;
 - (4) settlements for personal or property damage already received;
 - (5) equity in real property other than household's full time residence; and
 - (6) other personal property which is readily convertible into cash, exclusive of the value of necessary items such as ordinary household effects, including furniture, fixtures, and automobiles used for personal use.
- (b) The following shall not be considered as income:
- (1) casual, sporadic, or irregular gifts;
 - (2) amounts that are specifically for, or in reimbursement of, the cost of medical expenses;
 - (3) lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses;
 - (4) amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to veterans for use in meeting the costs of tuition, fees, books, and equipment; any amounts of such scholarships, or payments to veterans not used for the above purposes of which are available for subsistence are to be included in income;
 - (5) special pay to a serviceman head of household away from home and exposed to hostile fire;
 - (6) relocation payments made pursuant to federal, state, or local relocation law;
 - (7) foster child care payments;
 - (8) the value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is in excess of the amount actually charged the eligible household;

EXHIBIT B

Page 2 of 3

- (9) payments received pursuant to participation in the following volunteer programs under the ACTION Agency:
- A. National Volunteer Antipoverty Programs which include VISTA, Service Learning Programs and Special Volunteer Programs.
 - B. National Older American Volunteer Programs for persons aged 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Program to Assist Small Business Experience, Service Corps of Retired Executive (SCORE) and Active Corps of Executives (ACE).

Table of Contents

	<u>Page</u>
I. INTRODUCTION.....	1
A. Encourage Homeownership in City	1
B. Basic Structure	1
C. Definitions.....	4
II. ELIGIBILITY CRITERIA	10
A. Eligible Households and Eligible Participants.....	10
B. Eligible Property	11
III. AFFORDABLE HOUSING COST.....	13
IV. COVENANTS AND RESTRICTIONS	13
A. Maintenance and Prohibition of Criminal Activity Covenants.....	14
B. Owner-Occupancy Covenant	14
C. Term of Declaration	14
D. Calculation of Equity Sharing Payment.....	14
V. FINANCING FOR AGENCY LOAN.....	15
A. Minimum Downpayment Contribution by Participant	15
B. First Deed of Trust Loan.....	16
C. Second Deed of Trust (Agency Loan)	16
VI. PROGRAM INFORMATION SHALL BE FACTUAL, TRUTHFUL AND PROVIDED UNDER PENALTY OF PERJURY	19
A. Complete and Accurate Submittals.....	19
B. Penalties	19
VII. PROGRAM IMPLEMENTATION.....	19
A. Applicant Affidavits; Evaluation; Program Reservation; Processing.....	19
B. Underwriting; Evaluation by Program Administrator	20
C. Housing Counseling.....	20
D. Funding Approval	20
E. Program Manual.....	20
F. Agency Board Delegation of Program Implementation to Program Director	20