

**CITY OF ANAHEIM BEGIN  
LOAN PROGRAM**

**PROGRAM GUIDELINES**

**1. PROGRAM PURPOSE**

The BEGIN Program offers homeownership opportunities for low- to moderate-income households. The program provides down payment assistance in the form of a deferred payment second mortgage loan in order to make the purchase of a home affordable to a homebuyer, and to stabilize neighborhoods and expand homeownership levels in the City of Anaheim.

**2. HOMEBUYER ELIGIBILITY**

To be eligible to participate in the BEGIN Program:

- a. Applicant must be a first-time homebuyer
- b. Gross annual household income of the applicant may not exceed 120% of the Orange County area median income, adjusted by household size. Income limits are set by the State of California, Housing and Community Development, and adjusted annually (as posted at [www.hcd.ca.gov](http://www.hcd.ca.gov))
- c. Applicants may not have net household assets in excess of 20% of median home prices for the Orange County. Net assets (cash and capital) include, but are not limited to: cash, savings, checking and retirement accounts, stocks, bonds, real property and capital investments
- d. Applicant shall have sufficient income and credit worthiness to qualify for a primary loan as defined by a lender acceptable to the City.
- e. Ability of the household to provide a minimum cash down payment equal to 3% of purchase price of the home from personal resources.
- f. Household may not have ownership interest in a single family residence considered an investment property or secondary home at time of application or purchase of the BEGIN eligible unit property.
- g. All household members must provide proof of permanent legal residence in the U.S.A. at time of application.

**3. PROPERTY ELIGIBILITY**

- a. Property shall be located in a newly constructed homeownership development project whose units are designated as BEGIN units.

- b. Types of eligible BEGIN units include:
  - i. Single Family Detached units
  - ii. Single family attached units.
  - iii. Co-housing development units.
  - iv. New manufactured housing units on a permanent foundation.
  - v. Housing units on long-term leasehold land that enables the lessee to make capital improvements on and encumber the property, and has a term sufficient to secure the BEGIN loan, such as Planned Unit Developments and Community Land Trusts.
  - vi. Limited-equity co-ops.
- c. Forms of allowable homeownership interest in a eligible project include:
  - i. Fee simple
  - ii. Leasehold interest.
  - iii. Co-op membership.
- d. Mobile homes, multiple units, land contracts, and commercial (mixed zone) properties are not eligible.
- e. Number of bedrooms in the unit to be purchased must adhere to the occupancy requirements of no more than two (2) persons per bedroom plus one additional person to prevent overcrowding. Likewise, all homes purchased must be suitable for the size of the occupant household to prevent the household from being over housed. The maximum number of bedrooms must equal the number of persons in the household, plus one additional bedroom.
- f. Property must meet all City building, zoning and code standards, and Housing Quality Standards (HQS).
- g. Purchase price may not exceed the median home price for a single family residence in Orange County. The median home price shall be determined by the year-to-date price reported in the Orange County Register newspaper and adjusted quarterly in July, October, January and April.
- h. The City will conduct an inspection of the property and may require certain corrections, repairs, and or improvements as a condition of funding the BEGIN loan.

#### 4. TERMS AND CONDITIONS

##### a. Description of the BEGIN Loan:

- i. Funds are provided in the form of a deferred payment second mortgage loan.
- ii. The loan is intended to bridge the "gap" between the first mortgage a buyer can qualify for and the purchase price of the house, in order to make homeownership affordable. The City will provide a loan as determined by the approved subsidy for the project as approved by City Council.
- iii. Interest on the loan accrues at a rate of 3% simple interest annually. No interest or principal payments will be due during the term of the loan, providing borrower is in compliance with all terms and provisions of the BEGIN Program.
- iv. Both principal and interest are deferred for a term of 30 years, after which the full balance of principal and accrued interest will be due and payable to the City. If the City determines that repayment of the loan causes a financial hardship to the borrower, the City may convert the principal balance and accrued interest of the matured loan into a 15-year amortized loan, with level monthly payments, at zero (0%) interest rate.
- v. Principal and accrued interest on the loan from the City may be paid in part or full at any time during the term of the loan without penalty.
- vi. Acceleration of the loan shall occur with any of the following events:
  1. Property is sold prior to the fifth anniversary of the loan.
  2. Property ceases to be owner-occupied prior to the fifth anniversary of the loan.
  3. Primary loan is refinanced for more than the first mortgage balance, plus reasonable loan fees.
  4. Ownership of the property is transferred to another party.
  5. Borrower is in noncompliance of Program.
  6. Notice of Default or Sale is filed by a property lien holder.

##### b. Homebuyer Requirements:

- i. Household must provide a minimum 3% down-payment, a portion of which may be gifted by immediate family only, in accordance with primary lender program criteria.

- ii. Household may not have ownership interest in a single family residence considered an investment property or secondary home at time of application or purchase of the BEGIN eligible unit property.
- iii. Homebuyer shall qualify for a conventional, FNMA, CalHFA, FHA or other government-insured loans. Buyer and property must meet standard underwriting criteria for conventional or government-insured first mortgages. Qualification must be based on full documentation. Limited or stated income qualification is not acceptable.
- iv. Homebuyer shall apply for a primary loan with a lender acceptable to the City.
- v. BEGIN loan funds may be used for permanent financing of a property or to pay non-recurring closing costs, such as escrow and loan fees. Payment of real estate agent commissions is not permitted.
- vi. Maximum of two unrelated adults are allowed on title; all co-signers must occupy the house as their primary residence and all household income will be used to determine program eligibility.
- vii. Assumption of the loan by another qualified low- to moderate-household is permitted only after 5 years of continuous owner-occupancy.
- viii. It is recommended that the Homebuyer attend a HUD approved homeownership education class.
- ix. Property shall remain owner-occupied during the first 5 years after the date of recordation of the deed of trust securing the BEGIN loan.
- x. Household will annually submit to the City a current utility and telephone bill as proof of owner-occupancy. City may, at its discretion, inspect the property to ensure that it is still owner-occupied, not overcrowded, and generally in good condition.

**5. APPLICATION PROCEDURES:**

- a. Applicant shall submit to the City a loan application package containing:
  - i. Original City Application (signed).
  - ii. Copies of last 3 years federal tax returns (including the latest tax year if the April 15 deadline for filing of taxes has past).
  - iii. Copies of 4 most current pay stubs for all adults in household.
  - iv. Evidence of net assets, including three months' statements of saving and checking account balances; stocks, bonds, proof of real estate ownership, capital investments, insurance policies, retirement accounts, etc.

- v. Evidence of all other sources of income.
  - vi. Evidence of residence or employment within the City of Anaheim.
  - vii. Proof of permanent legal residence in the U.S. (birth certificate, passport, naturalization certificate, resident alien card).
  - viii. City Disclosure (signed).
  - ix. Gift letter, if applicable (signed).
  - x. Consent to Gather Information (signed).
  - xi. Self-employed individuals may be required to submit additional documentation, as determined by the City.
- b. The Housing Loan Counselor is responsible for qualifying applicants and packaging all loan applications. Applications are reviewed and approved by the Community Investment Manager.
- c. Applications will be processed on a first-come, first-served basis. Each application shall be date stamped upon receipt. Preference will be given to the following applicants:
- i. Households displaced due to City of Anaheim or Anaheim Redevelopment Agency governmental action.
  - ii. Households who reside and/or work in Anaheim at the time of application.
  - iii. All other eligible households.
- d. For each eligible applicant, a credit report shall be obtained to determine credit worthiness.

## 6. QUALIFYING CRITERIA

- a. Homebuyer Eligibility
- i. The applicant must be a first-time homebuyer who has not owned a home during the 3-year period before the purchase of a BEGIN eligible unit. The following individual(s) may not be excluded from consideration as a first-time homebuyer:
    - 1. A displaced homemaker who, while a homemaker, owned a home with his/her spouse or resided in a home by the spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive 12-month period and who has been unemployed, experienced difficulty in obtaining or upgrading

employment and worked primarily without remuneration to care for his/her home and family.

2. A single parent who, while married, owned a home with his/her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant.
3. An individual who owns or owned, as a principal residence during the three-year period before the purchase of a home with BEGIN assistance, a dwelling unit whose structure is:
  - a. not permanently affixed to a permanent foundation in accordance with local or state regulations; or
  - b. not in compliance with state, local, or model building codes and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

ii. Determination of household size and income limits.

1. All household members intending to occupy a BEGIN assisted property, will be included in the household size.
2. Persons not included when determining household size for income limit purposes: foster children, unborn children and children being pursued for legal custody or adoption who are not currently living with the household, and a child who is subject to a shared-custody agreement and resides in the household less the 50% of the time.
3. Persons not currently a member of the household, but intending to occupy the BEGIN assisted property, will be reviewed on a case-by-case basis.

iii. Determination of adjusted gross annual income. In calculating adjusted gross income, all gross income of the applicant (even if temporarily absent) and other households members 18 years of age or older, shall be considered as follows:

1. The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, and bonuses, and other compensation for personal services.
2. The net income derived from self-employment, as calculated by averaging the net income, plus depreciation as indicated on their federal income taxes for the past 3 years.

3. Interest, dividends, and other net income of any kind from real or personal property. Where the family has net family assets of \$5,000 or less, annual income shall include the actual income derived from all net family assets. Net family assets in excess of \$5,000, annual income shall include the greater of the actual income derived from all net family assets, 2.5 percent, or a percentage of the value of such assets based on the current average pass book savings rate, as reported in the Orange County Register newspaper, first Sunday edition in July, October, January and April.
  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, including a lump-sum payment for the delayed start of a periodic payment.
  5. Payment in lieu of earnings, such as unemployment, worker's compensation, severance pay or welfare assistance. (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. Periodic and determinable allowances such as alimony, child support payment, and regular contributions or gifts received from persons not residing in the dwelling to the extent that such payments are reasonably expected to continue.
  7. 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 family, spouse, or other person whose dependents are residing in the unit.
  8. All other gross income inclusions as defined in California Code of Regulations (CCR), Title 25, Section 6914.
- iv. Exceptions to adjusted gross income. The following exceptions shall apply in the determination of adjusted gross income:
1. Payments received for direct care of foster children.
  2. Casual, sporadic, or irregular gifts.
  3. Funds that are specifically for, or in reimbursement of, the cost of medical expenses.
  4. Lump-sum additions to family assets, such as inheritance, insurance payments (including payments under health and accident

insurance and worker's compensation) capital gains and settlement for personal or property losses (These items shall be considered as assets for the purpose of this program).

5. Amounts of education 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.
  6. All other gross income exclusions as defined in California Code of Regulations (CCR), Title 25, Section 6914.
- v. Determination of net assets. Borrower's assets shall only be considered in the transaction in the determination of income eligibility calculation. Borrower will not be required to liquidate assets to qualify for a BEGIN loan. The following assets shall be included in the determination of net assets:
1. Cash accounts, marketable securities, stocks, bonds, retirement accounts, cash value insurance policies, capital investments.
  2. Inheritances, lump-sum insurance payment.
  3. Equity in real estate (rental property and vacant land).
  4. Upon verification the applicant has demonstrated sufficient resources to provide the required 3% minimum cash down payment, net household assets may not exceed 20% of the median home price in Orange County.
- vi. Calculation of earnings. A "snapshot" of the household's current financial circumstances is used to project future income. Unless there is verifiable evidence to the contrary, the City will assume that current circumstances will continue for the next 12 months, following the date of determination of income. Method of calculation shall be dependent on frequency of earnings:
1. Full-time hourly wage shall be calculated as 40 hours/week times(x) 52 weeks/year.
  2. Salary shall be calculated weekly, bi-weekly, bi-monthly or monthly.
  3. Commissions, bonuses, overtime, miscellaneous income and part-time shall be averaged over 12 months.
  4. Self-employment income shall be calculated by averaging the net income, plus depreciation for the 3 most recent years.

5. Third party verifications, shall be requested, if appropriate.
  6. Documents reviewed to determine income eligibility shall include: paystubs, cash receipts, bank account statements, federal tax returns, and financial statements.
- vii. Credit review. The City accepts a minimum FICO score of 620. Consideration may be given to credit scores of less than 620, on a case-by-case basis.
- b. BEGIN Loan Criteria:
- i. Maximum loan amount is the lesser of:
    1. "Gap" loan between the primary loan a homebuyer can qualify for and the purchase price of the house, in order to ensure affordable monthly mortgage payments.
    2. 20% of the property purchase price, or
    3. Up to \$100,000 or amount as approved for the project by City Council
  - ii. Debt-to-income ratios are comparable to ratios acceptable to conventional FNMA, CalHFA, FHA or other government-insured loan standard underwriting criteria. The City will consider a front-end ratio of 35% and a back-end ratio of 45%. Compensating factors must be present to warrant higher ratios. The City will not accept a back-end ratio greater than 50%.
    1. Front-end ratio includes: Total housing cost consisting of principal and interest payment, property taxes and assessments, hazard insurance, homeowner's association dues, private mortgage insurance and leasehold payments.
    2. Back-end ratio includes: Total housing cost and all long-term installment debt (longer than 10 months), child support and alimony.
  - iii. Maximum combined loan-to-value (CLTV) is 100%. The buyer's cash down payment must equal a minimum 3% of the purchase price. This amount may be used for down payment and/or closing costs.
- c. Primary Loan Criteria:
- i. Buyer shall obtain the maximum primary loan with a term, interest rate and debt ratios consistent with affordable housing costs as defined in the Program guidelines. The loan shall be meet conventional, FNMA, CalHFA, FHA or other government-insured standard underwriting criteria and the lender must be acceptable to the City.

- ii. Loan underwriting and approval must be based on full documentation standards. Limited or stated income underwriting standards are not acceptable.
  - iii. Primary loan approval must be a 30-year, fixed rate, level payment mortgage. Provisions for a balloon payment, negative amortization, principal increases or deferred interest is not acceptable. The City may, on a case-by-case basis, accept government insured/funded hybrid loans, such as the CalFHA 35-year loan, provided the loan poses no additional risk to the borrower or BEGIN loan.
  - iv. Property taxes and hazard insurance shall be impounded with the primary lender during the BEGIN loan term. Borrower agrees to provide the City, at own expense, a property tax service should the primary lender seize to impound property taxes. The City will record a Request for Notice of Default for notification should the primary loan or property taxes become delinquent.
- d. Subordinate Loan Criteria:
- i. Maximum combined loan-to-value (CLTV), including a subordinate loan, is 100%.
  - ii. Balloon payment prior to the maturity date of the BEGIN loan is not acceptable.
  - iii. Loan shall defer all principal and interest payments for the term of the BEGIN loan.
  - iv. Loan fees/charges shall be consistent with industry standards.
- e. Approval Notification
- i. The City will assign a loan identification number and mail the applicant a conditional loan approval letter upon determining eligibility for the Program.
  - ii. Applicant is contacted by the Housing Loan Counselor to schedule an appointment for an orientation. During orientation, the counselor describes the terms and conditions of the BEGIN loan. The applicant is counseled regarding the home buying process: responsibilities of the homeowner, occupancy standards, eligible properties, selection of an agent, and selection of a lender, property maintenance, and loan products.

## **7. PROPERTY SELECTION**

- a. Homebuyer shall locate and select a property in a newly constructed homeownership development project whose units are designated as BEGIN units.

- b. Selected property must be considered "affordable", that is, all monthly housing costs must be consistent with affordable housing costs as defined in the BEGIN Program guidelines. Primary lender and loan must be approved by the City.
- c. Homebuyer may retain a real estate agent for the purpose of locating and offering to purchase the selected property or may negotiate directly with the seller. The escrow agent may be selected by the seller.
- d. The number of bedrooms in the house must correspond with occupancy standards.
- e. Property appraised value cannot exceed the sale price/median home price as set forth in the BEGIN guidelines.

**8. OPENING ESCROW-CLOSING/FUNDING PROCEDURE:**

- a. Homebuyer shall inform City once a property has been selected and a purchase agreement has been signed. Escrow will be opened, defining the terms of the purchase and financing.
- b. Primary lender shall then process the loan application based on its underwriting criteria. Upon completion of the processing and loan approval, the lender will submit to the City a full lender's package containing:
 

1. Sales price	9. Termite Report and clearance
2. Property address	10. Lender application (form 1003)
3. Credit report	11. Qualification Summary (form 1008)
4. Escrow instructions	12. Preliminary title report
d. Estimated closing date	13. Employment verification and paystubs
e. Appraisal	14. Tax returns (prior year)
f. Purchase contract	15. Conditional loan approval (i.e. MCAW)
- c. The City will review the lender, escrow and preliminary title documentation as follows:
  - i. Confirmation the borrower has obtained the maximum primary loan amount with terms, interest rate and debt ratios that are consistent with affordable housing costs as defined in the Program guidelines.
  - ii. Confirmation the primary loan fees and charges are consistent with market standards.
  - iii. Review property address, legal description, borrower vesting, and unallowable exceptions on the preliminary title report that require endorsements by the primary lender.
  - iv. Review insurance amounts and property taxes for accuracy.

- d. The City will prepare the loan documentation listed below to secure its interest in the property. Borrower shall execute the loan documents at the City. The documents (\*) will then be delivered to the escrow holder prior to loan closing:
  - i. Promissory Note
  - ii. Loan Agreement
  - iii. Disclosure
  - iv. Deed of Trust (\*)
  - v. Request for Notice of Default (\*)
  - vi. Lender Instructions (\*)
- e. The City shall prepare lender instructions requesting:
  - i. Homebuyer's title vesting shall be the same on the BEGIN and primary loan documents.
  - ii. The deed of trust be recorded junior only to the primary loan deed of trust.
  - iii. The City be provided an ALTA title insurance policy, at borrower's expense, naming the City as insured, in an amount equal to the principal amount of the loan, and subordinate only to the primary loan.
  - iv. Title endorsements and unallowable exceptions shall match the primary lender's requirements.
  - v. The City be named as a loss payee on the hazard insurance policy.
  - vi. Property taxes and insurance are to be impounded by the primary lender.
  - vii. Escrow may refund, with City approval, only cash deposited by buyer that exceeds the required minimum 3% buyer down payment. All other excess funds must be applied to the primary loan as a principal reduction.
  - viii. Cash transaction or oral agreements outside of escrow is not permitted.
- f. Escrow holder shall provide the following documentation after recordation of the BEGIN loan:
  - i. Recorded original BEGIN Deed of Trust.
  - ii. Request for Notice of Default.
  - iii. Original ALTA title policy showing the City as insured.
  - iv. Certified copy of HUD-1 (Settlement Statement).
  - v. Certified copy of hazard insurance showing the City as a loss payee.

- vi. Certified copy of primary and subordinate loan documents.
- g. Upon homebuyer executing escrow instructions, a Housing Loan Counselor is assigned to conduct an on-site property inspection. The Housing Loan Counselor will review the property's final inspection, certificate of occupancy and inspect for HQS violations. The property Seller, buyer and primary lender are notified in writing of any HQS violation corrections to be made by the seller. The loan shall not fund until all violations are corrected and the property is re-inspected for sign-off by the Housing Loan Counselor.
- h. The City prepares and executes the loan documents (simultaneous with the lender) and submits to the title company along with the funding check.
- i. At any time during the process that an applicant becomes ineligible according to the criteria set forth by the Program, the applicant shall be terminated from the program and the next eligible applicant in priority shall be contacted.

**9. HOMEBUYER EDUCATION**

- a. It is recommended that the Homebuyer attend a HUD approved Homeownership class.