

16. APPROVAL

ELIGIBILITY CRITERIA FOR THE HOMEBUYER
OPPORTUNITY PROGRAM FUNDED BY PERMANENT
LOCAL HOUSING ALLOCATION (PLHA) FUNDS

Recommended Action: Approve the Homebuyer Opportunity
Program guidelines.



To: Honorable City Council
From: John Moreno, City Manager
By: John King, AICP, Interim Planning Director
Date: September 10, 2024

SUBJECT: ELIGIBILITY CRITERIA FOR THE HOMEBUYER OPPORTUNITY PROGRAM FUNDED BY PERMANENT LOCAL HOUSING ALLOCATION (PLHA) FUNDS

BACKGROUND

The City Council adopted Resolution No. 22:049 on November 8, 2022, authorizing the application for the Permanent Local Housing Allocation (PLHA) program with the California Department of Housing and Community Development (HCD). PLHA is a State grant program intended to increase and preserve the affordable housing stock. The City is eligible for this housing-related grant in the amount of approximately \$2,626,182 over a five-year period. The State awarded Paramount allocations for the first three annual program cycles: \$438,197 for the 2019 program year, \$681,094 for the 2020 program year, and \$749,523 for the 2021 program year, totaling \$1,868,814. The agreement was executed on June 22, 2023.

On April 23, 2024, the City Council adopted Resolution No. 24:009, which amended the 2020, 2021, 2022, and 2023 program years of the PLHA plan. The 2020 and 2021 program years allocated 95% of PLHA funds to "Activity 9: Homeownership opportunities, homebuyer assistance."

Planning Department Staff has since developed a first-time homebuyer/down payment assistance program to be marketed as the Homebuyer Opportunity Program. This item is an introduction to a request to approve the Homebuyer Opportunity Program Policies and Procedures Manual (Eligibility Criteria).

DISCUSSION

For some time now, it has become increasingly difficult for new homebuyers to enter the housing market. With the average 30-year fixed mortgage rate slightly below 7%, coupled with an inventory shortage of homes entering the market, home prices continue to be out of reach for many. As of June 2024, the typical home value in California was \$810,327 compared to \$555,508 five years ago.

The objective of the Homebuyer Opportunity Program is to provide affordable homeownership opportunities for low- to moderate-income families. If approved, the City's Homebuyer Opportunity Program aims to close the gap by making home prices affordable for first-time homebuyers that purchase a home in Paramount.

Proposed Program Guidelines

The Homebuyer Opportunity Program will be available to qualified buyers who have not owned a home in the last three years. These buyers would also have an annual household income that does not exceed 150% of the area median income (otherwise known as the "missing middle") as published annually by HCD.

The program will provide down payment, closing cost, and mortgage loan principal reduction assistance to eligible homebuyers in the form of a 0% interest second mortgage. Eligible homebuyers can receive program loans for an amount up to 30% of the purchase price of a qualifying home, while funds are available. The City's second mortgage will have an affordability term of 30 years and will be forgivable at the rate of 1/30th of the principle amount each year during the term of the loan if the Program requirements are met. Loans will be made as second mortgages in conjunction with primary mortgages provided by Lenders. The Program Loan may be repaid at any time without penalty.

Repayment Clause

The City understands that unforeseen circumstances can occur that may cause a qualified homeowner to sell their home before the required 30-year term. Therefore, a repayment clause has been included in the program guidelines. If the home is sold during the 30-year term, the City will be entitled to a share ("equity share") of the appreciation in the home's value. The equity share percentage will be equal to the percentage of the outstanding program loan to the original purchase price. For example:

Purchase Price	Outstanding Program Loan Balance	Sale Price	Percentage (Outstanding program loan divided by original purchase price)	Repayment (Remaining Loan Balance + Equity Share)
\$600,000	\$120,000	\$800,000	20%	\$160,000

Equity Share Example using figures shown above:

$\$120,000 / \$600,000 = 20\%$

$\$200,000 \times 20\% = \$40,000$

Total Amount Due = \$160,000 (\$120,000 outstanding Program Loan balance + \$40,000 equity share.)

Proposed Underwriting Standards

Below are the details of the proposed underwriting standards:

- Front-end ratio set at 33% of gross household income.
- Debt-to-income ratio not to exceed 36% of the borrower's stable monthly income or up to 45% for borrowers that meet the credit score, and reserve requirements included in the Fannie Mae Eligibility Matrix.
- Sufficient cash reserves (including savings, checking, money market, or other non-retirement accounts) to make the minimum required buyer down payment contribution of 1% of the purchase price and to meet the reserve requirements included in the Fannie Mae Eligibility Matrix.

Eligibility Criteria

The following criteria determine the applicant's eligibility in the Homebuyer Opportunity Program:

- First-time homebuyer.
- 150% AMI as determined by HCD.
- Principle residence requirement.
- Housing counseling requirement.
- Written agreement.
- Lender credit and underwriting criteria.
- Co-owners, other than owner occupants, are not permitted.
- Conflict of interest – no person who is an employee, agent, consultant officer, elected official, or appointed official of the City who exercise or have exercised any functions or responsibilities with respect to this Program or who in a position to participate in a decision making process or gain inside information with regard to these activities, including immediate family ties.

Properties that are purchased with Program funds must meet the City's property standards and will require an onsite visual inspection performed by Program staff to ensure that the home complies with all City codes, ordinances, and zoning requirements and meets the City's property standards at the time of purchase.

Property eligible for acquisition using the Homebuyer Opportunity Program includes real property located within the Paramount city limits and the property must meet the criteria below.

- Single-family home, including a manufactured home that is on a permanent foundation, connected to permanent utility hook-ups.
- A condominium (as defined by subdivision (c) of the California Business and Professions Code, Section 11004.5).
- A dwelling unit in a stock cooperative, as defined by the California Business and Professions Code, Section 11003.2.
- A dwelling unit in a community apartment project, as defined by the California Business and Professions Code, Section 11004.

Homes that are rental units at the time they are listed for sale are not eligible except under the following circumstances:

- The current tenant is the purchaser; or
- The current tenant is moving out of the rental property because they are purchasing their own home; or
- The unit has been vacant for at least 90 days prior to the offer to purchase. If a vacant unit is to be purchased, the owners/seller must certify in writing that the unit has been vacant for 90 days preceding the date of the purchase agreement/offer.

Next Steps

If approved, City staff will prepare marketing materials to promote the Homebuyer Opportunity Program on social media, the city website, and flyers for distribution at City facilities. The official launch will begin within two weeks of City Council approving the program guidelines, and applicants will be able to apply to the program soon afterwards.

Summary

With the current housing market being increasingly unattainable for most, and the lack of financial assistance available to new buyers, this Program will help first-time homeowners by providing down payment assistance and give an opportunity to the “missing middle” i.e., hard-working middle-class families, which can include police officers, teachers, retail managers, etc., to purchase a home in Paramount. Although the exact dollar amount available to a qualifying applicant will vary, the Program aims to assist an average of six families with PLHA funds.

FISCAL IMPACT

None.

VISION, MISSION, VALUES, AND STRATEGIC OUTCOMES

The City’s Vision, Mission, and Values set the standard for the organization, establish priorities, uniformity, and guidelines; and provide the framework for policy decision making. The Strategic Outcomes were implemented to provide a pathway to achieving the City’s Vision. This item aligns with Strategic Outcome No. 1: Safe Community - Provide a safe place to live, work, and visit.

RECOMMENDED ACTION

Approve the Homebuyer Opportunity Program guidelines.



CITY OF PARAMOUNT

Homebuyer Opportunity Program

Policies and Procedures

August 2024

APPROVAL			
Name	Title	Signature	Date

Approved:

CHANGE HISTORY			
Version	Approval Date	Motive for Change	Requires Training
01			
02			
03			

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ADDENDA

Addendum 01	Los Angeles County Department of Regional Planning Income Limits
Addendum 02	Housing Quality Standards
Addendum 03	Program Implementation Flowchart
Addendum 04	Technical Guide for Determining Income and Allowances for the HOME Program

1. INTRODUCTION TO THE HOMEBUYER OPPORTUNITY PROGRAM

1.1 Purpose of this Policies and Procedures Manual

The purpose of this Homebuyer Opportunity Program (the “Program”) Policies and Procedures manual is to describe the Program and set forth the roles of the City of Paramount (the “City”), Participating Lenders, and Program Applicants. This manual contains a description of the Program requirements and processing procedures. Processing forms are included as exhibits to this document. The City may revise these policies and procedures from time to time, and notice will be given by the City only for significant program changes.

Participating Lenders are expected to be well informed about all local and state requirements as set forth in this manual. All staff involved in the Program must be knowledgeable regarding these requirements before a Program application is accepted. A Lender shall disqualify those applicants where the submitted information indicates that the applicant or the proposed residential acquisition does not qualify for the program.

1.2 Program Summary

The objective of the City of Paramount’s Homebuyer Opportunity Program is to provide affordable homeownership opportunities for low- and moderate-income families in the city. The Program will be available to anyone who has not owned a home in the last three years (or otherwise qualifies as a First-Time Homebuyer as defined in this manual) and has an annual household income that does not exceed 150% of the area median income as published annually by the California Department of Housing and Community Development (HCD).

The Program will provide down-payment, closing cost, and mortgage loan principal reduction assistance to eligible homebuyers in the form of a 0% interest second mortgage (the “Program Loan”). Eligible homebuyers can receive Program Loans for an amount up to 30% of the purchase price of a qualifying home, while funds are available. The exact amount of assistance will be determined based on the specific financial circumstances of each homebuyer and transaction, and will be no more than is necessary to make the home affordable according to the guidelines established by the City in this manual.

The City’s second mortgage will have a term of 30 years and will be forgivable at the rate of 1/30th of the principal amount each year during the term of the loan so as long as the Program requirements are met. As an example, if a home is purchased for \$600,000 and the homebuyer receives the maximum amount of assistance (30% of the purchase price), the Program Loan is \$180,000 and is forgiven at a rate of 1/30 every year, which equals \$6,000 of the Loan amount forgiven each year.

The Program is presently funded through the Permanent Local Housing Allocation (PLHA) program, which is a State of California grant program intended to increase and preserve affordable housing stock. Funds are allocated by formula or through a competitive application process to participating cities and local governments. The City of Paramount is a designated participating jurisdiction under the PLHA program and, as such, receives an annual formula allocation of PLHA funds.

1.3 Roles and Responsibilities

City of Paramount: The City of Paramount is the entity responsible for operating and administering the Program. Staff in the Planning Division of the Planning Department are responsible for the day-to-day operations of the Program.

Participating Lenders: Program Loans must be made in conjunction with a primary mortgage from a Participating Lender. Any direct lender that provides home mortgages can be a Participating Lender in the Program, as long as they meet and follow all program requirements as described in this manual.

1.4 Definitions

As used in this manual and all Program documents, unless the context requires otherwise, the following words and terms shall have the meanings set forth below:

ACQUISITION COST: Acquisition Cost is used interchangeably with Purchase Price.

AFFIDAVIT: Means a statement filed in connection with the Program made under oath and subject to penalties of perjury.

AFFORDABLE HOUSING RESTRICTION: The recordable agreement which contains the covenants, conditions, and restrictions imposed as a result of the provision of Program Loan assistance to a Participant, which must be observed and adhered to during the Participant's ownership of the Program-assisted Property.

APPLICANT: Any person or persons who apply for a loan under the Program.

CAPITAL IMPROVEMENT: Means those improvements legally made by a Homeowner to a Property, with a minimum cost of Two Thousand Five Hundred Dollars (\$2,500) per item, and a useful remaining economic life of not less than five (5) years.

CITY: The City of Paramount, California.

DATE OF PARTICIPATION APPROVAL: The date the Initial Reservation Request is signed by the City.

ELIGIBLE APPLICANT: Any person meeting the criteria for an eligible borrower as set forth in this Manual who is in the process of securing financing for the purchase of a Principal Residence.

ELIGIBLE DWELLING: Real property located in the City of Paramount including: (1) a New Home (not previously occupied), or (2) an Existing Home (which has been previously occupied); designed as a residential unit for one household, and which meets the criteria set forth in this Manual (see section on Eligible Properties). An Eligible Dwelling must be acquired by the Participant for owner-occupancy and upon acquisition be used as the principal residence of the Applicant.

EXISTING HOME: Means a dwelling unit that has been previously occupied prior to City loan commitment.

HEAD OF HOUSEHOLD: Means the adult member of the family who is designated as the head of the household for purposes of determining income eligibility and rent.

INCOME: The gross income of a mortgagor (or mortgagors) is the mortgagor's annualized gross income over the next 12 months. Annualized gross income is gross monthly income multiplied by 12. Income shall be considered in accordance with the requirements of 24 CFR Part 5. The income to be taken into account in determining gross income includes the income of all household members inclusive of dependent children over 18 years of age.

NEW HOME: Means a dwelling unit that has never been previously occupied prior to City loan commitment.

NEW MORTGAGE LOAN: A new mortgage originated in conjunction with a Program Loan; a mortgage that has not been transferred or assumed.

OWNERSHIP INTEREST: Any of the following interests in residential real property:

- a. Fee simple interest;
- b. Joint tenancy;
- c. Tenancy in common;
- d. Life estate;
- e. Interest held in trust for the Applicant that would constitute a present ownership interest if held by the Applicant. Ownership does not include a remainder interest, a lease with or without an option to purchase, an expectancy to inherit an interest in a Principal Residence, or any interest acquired on the execution of the purchase contract.

LENDER: Any direct funding financial institution which is licensed to do business in the State.

PARTICIPANT: An approved Applicant that is funded with a Program Loan.

PRIMARY LOAN: A purchase money loan used to acquire a residential property for which the Program Loan is provided. The loan is provided to an Eligible Applicant to finance the purchase of an Eligible Dwelling, which meets the City requirements set forth in this Manual.

PRINCIPAL RESIDENCE: This is the home where the Participant will principally live. A temporary absence due to special circumstances, such as illness, education, business, military service, or vacation will not change the principal residence status, provided that any temporary absence in excess of 21 days must be approved in writing by the City. The Applicant must occupy the Principal Residence as their permanent residence.

PROGRAM LOAN: Loan provided to a Program Participant by the City to support the acquisition of an eligible dwelling as a principal residence.

PROGRAM STAFF: The City of Paramount staff or any successor or designee appointed by the City.

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

RELATED PERSON: A "related person," as that term is defined under the Internal Revenue Code and applicable regulations: siblings, spouses, ancestors and lineal descendants or entities that are more than 50% owned by the Applicant or any other Related Persons.

2. PROGRAM GUIDELINES

2.1 Overview

The objective of the City of Paramount's Homebuyer Opportunity Program is to provide affordable homeownership opportunities for low- and moderate-income families in the city. This section of the manual describes the structure and terms of the Program Assistance, the eligibility criteria for applicants and properties, the primary loan and lender requirements, and other Program requirements.

2.2 Program Assistance Structure

Form of Assistance and Eligible Costs

The Program will provide 0% non-interest-bearing loans (the "Program Loan") to low- and moderate-income homebuyers to pay for down-payment, closing costs, and mortgage loan principal reduction associated with purchasing a home to use as their principal residence. Loans will be made as second mortgages in conjunction with primary mortgages provided by Lenders.

Assistance Term and Repayment

The City's second mortgage has a term of 30 years. Each year during the term, if all program requirements are being met, the City shall forgive 1/30th of the original Program Loan amount so that by the end of the 30-year term, 100% of the Program Loan will be forgiven.

During the 30-year term, repayment of the Program Loan, less the amount forgiven to date, will be required upon sale, transfer, lease, or encumbrance of all or any interest in the Property without the City's prior written consent, upon a declaration of default of the Affordable Housing Restriction, or the triggering of an acceleration clause, whichever occurs first.

Additionally, if the home is sold during the 30-year term, the City will be entitled to a share ("Equity Share") of the appreciation in the home's value. The Equity Share will be calculated as a percentage of the difference in the original purchase price and the sale price. The Equity Share percentage will be equal to the percentage of the outstanding Program Loan to the original purchase price. For an example of a transaction, please see the Affordability Restriction section below.

The Program Loan may be repaid at any time without penalty.

Amount of Assistance

Program funds are committed on a first come, first served basis, and funding is subject to availability. The Program will provide eligible homebuyers with assistance equaling up to 30% of the purchase price of a qualifying home. The exact amount of assistance provided to a homebuyer will be based on the specific financial circumstances of each household and will be no more than is necessary to make the home affordable according to the guidelines established by the City and described below.

Homebuyer Underwriting and Determination of Amount of Assistance

The City will determine the appropriate amount of assistance to provide to each homebuyer based on individual financial circumstances. Proper underwriting of the homebuyer will ensure the City makes an informed decision about the amount of assistance needed to make the unit affordable to each specific homebuyer while ensuring that the homebuyer is not being over subsidized. As part of the underwriting process, the City will examine housing and overall debt; monthly income; and assets or cash reserves for the homebuyer. Based on that information, the City will determine the amount of the Program Loan to provide for each homebuyer in order to make the home affordable.

As required in the 2019 PLHA Final Guidelines published by the California Department of Housing and Community Development (HCD), the City's underwriting standards must conform to the criteria published in the Fannie Mae Selling Guide, Part B, Debt to Income Ratios, as updated annually and found online at the following link:

<https://www.fanniemae.com/content/guide/selling/b3/6/02.html#DTI.20Ratios>

Program Staff will review the Fannie Mae Selling Guide each year and update the underwriting standards as needed to align with any changes made to the acceptable Debt-to-Income Ratios.

✓ TASKS	Review Fannie Mae Selling Guide and update underwriting standards
1. Review Fannie Mae Selling Guide, Part B, Debt to Income Ratios, found online at the following link: https://www.fanniemae.com/content/guide/selling/b3/6/02.html#DTI.20Ratios	
2. Update underwriting standards, as needed, to align with any changes made to acceptable Debt to Income Ratios in Fannie Mae Selling Guide.	
Preparer:	Program Staff
Timeframe:	Annually
Approval:	N/A
Documents:	Fannie Mae Selling Guide
Records Retained:	N/A
Retention Period:	N/A
Retention Location:	N/A

The City's underwriting standards are the following:

- A front-end ratio set at 33% of gross household income. This ratio represents the total monthly housing cost (principal, interest, mortgage insurance, taxes, insurance, HOA fees) as a percentage of monthly gross income.
- Debt-to-income (DTI) ratio not to exceed 36% of the borrower's stable monthly income, or up to 45% for borrowers that meet the credit score and reserve requirements included in the Fannie Mae Eligibility Matrix, which is incorporated by reference into the Fannie Mae Selling Guide and can be accessed via the link to the Selling Guide included above. This ratio represents the total of all monthly debt expense (installment loans, credit card debt, student loans, other obligations reportable on credit reports) inclusive of housing cost, as a percentage of monthly gross income.
- Sufficient cash reserves (including savings, checking, money market, or other non-retirement accounts) to make the minimum required buyer down payment contribution amount of 1% of the purchase price and to meet the reserve requirements included in the Fannie Mae Eligibility Matrix, referenced above. Buyers will be required to allocate the largest amount possible from cash assets toward the home purchase, while observing these underwriting requirements.

The amount of Program Assistance to be provided will be calculated on an applicant-to-applicant basis. The assistance will be based on the amount necessary to qualify for the primary loan and make the monthly payment affordable after consideration of the primary loan amount, buyer contribution, and total transaction cost, in accordance with these underwriting requirements.

Affordability Restrictions

Properties assisted with PLHA funds from the City are required to remain affordable and comply with all other Program requirements for a minimum designated length of time. The City has designated the affordability period for all properties receiving Program Assistance as thirty (30) years.

During the thirty (30) year affordability period, if there is a property sale, transfer, or program default of the conditions of the promissory note or the Affordable Housing Restriction, the City will provide for the recapture of Program funds in accordance with the following:

1. Upon the occurrence of a sale, transfer, or program default of the conditions of the promissory note or the Affordable Housing Restriction, the outstanding principal balance of the Program Assistance provided by the City will be due to the City (this is the original principal amount less the amount that has been forgiven to date). For example,
 - a. If a buyer receives a \$180,000 Program Loan, \$6,000 will be forgiven each year during the loan term (this equals $1/30^{\text{th}}$ of the \$180,000 loan amount). After 10 years, if the home is sold, \$60,000 will have been forgiven and therefore \$120,000 will be due to the City to repay the remaining balance of the Program Loan.
2. Additionally, upon the occurrence of a sale, the City will be entitled to an Equity Share, meaning a portion of the appreciation in the home's value. The appreciation in the home's value will be calculated as the difference between the original purchase price and the sale price. The Equity Share will be calculated as a percentage of this difference. The Equity Share percentage will be equal to the percentage of the outstanding Program Loan to the original purchase price. For example, based on the scenario above:
 - a. \$120,000 of the Program Loan is still owed to the City. The Equity Share percentage would be equal to \$120,000 divided by the original purchase price, \$600,000, or 20%. The dollar value of the City's Equity Share would be 20% of the price appreciation. If the home sells for \$700,000, the price appreciation is equal to \$100,000 (\$700,000 minus the original purchase price of \$600,000), and the Equity Share is worth 20% of \$100,000, or \$20,000. Therefore, in this scenario, the homeowner who is selling after 10 years would owe the City a total of \$140,000 (\$120,000 for the remaining principle amount of the Program Loan and \$20,000 for the Equity Share).
3. Notwithstanding the preceding, in the event that the Net Proceeds resulting from a sale are not sufficient to provide for the full return of the borrower's investment inclusive of the original down payment and capital improvements performed on the acquired property (subject to City verification and approval), then the borrower shall be entitled to recover their original down payment amount and City-approved capital improvement amounts before the City recapture of the Program investment amount (the Program Loan). For the purposes of this calculation, net proceeds shall mean the sales price minus the repayment of the Primary Loan undertaken to acquire the Property (other than Program Loan funds) and any closing costs. Capital improvements means those improvements legally made by Homeowner to the Property after the closing of Homeowner's purchase of the Property, with a minimum cost of Two Thousand Five Hundred Dollars (\$2,500) per item, and a useful remaining economic life of not less than five (5) years, as approved by the City and documented by invoices and receipts which the Homeowner certifies to be true and correct.

The affordability period will be evidenced by a promissory note, secured by a deed of trust or mortgage, which provides the affordability period and details the formula under which the Program Assistance funds will be recaptured by the City.

Other Terms and Conditions of the Program Assistance

Refinancing and Subordination

Refinancing of the Program Loan shall be allowed when the proposed loan refinance amount does not exceed the then outstanding balance (plus refinancing and closing costs) of the existing Primary Loan and results in a lower monthly payment for the homeowner. An appraisal must be conducted to establish the market value of the property to ensure that the total outstanding loan obligations do not exceed 95% of the property value.

In the event the homeowner refinances the Primary Loan, and the refinancing returns money to the homeowner, the homeowner must use the loan proceeds to pay down the Program Loan, thereby reducing the principal loan balance owed on the Program Loan.

Requests for subordination shall be considered on a case-by-case basis. After subordination, the sum of all outstanding loans may not exceed 95% of the property's appraised market value. Subordination Requests shall be performed in conformance with the procedures detailed in Exhibit 24 (Subordination Request Procedure), Primary Loan Refinancing and Subordination Policy Acknowledgement (Exhibit 25), and Request for Refinancing and Subordination form (Exhibit 26).

Maintaining Current Payments

The borrower shall maintain current payments on all obligations secured by the property, including, but not limited to, the first deed of trust, property taxes, and hazard insurance.

Acceleration Clause

An acceleration clause shall be in effect when the property is no longer the borrower's principal residence; upon transfer; upon failure to report changes, including but not limited to additions, fire, and vandalism; borrower failure to maintain current payments on the primary loan or other obligations secured by the property; borrower failure to maintain current payments on property taxes; borrower failure to maintain and submit verification of hazard insurance; or upon discovery of willful misrepresentations in connection with the program.

Promissory Note and Deed of Trust

A Promissory Note shall evidence the Program Assistance and a Deed of Trust on the property shall secure the Program Assistance.

Program Loan is Not Transferable or Assumable

The Program Loan is not transferable or assumable. When assumption of a mortgage associated with a Program Loan occurs, the Program Loan may not be assumed by the new owner/buyer except in the following limited circumstances:

- a. The transfer of the Property to the surviving joint tenant by devise, descent or operation of the law, on the death of a joint tenant.
- b. A transfer of the Property where the spouse becomes an owner of the property;
- c. A transfer of the Property resulting from a decree of dissolution of marriage, legal separation or from an incidental property settlement agreement by which the spouse becomes an owner of the Property.
- d. A transfer to an inter vivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

Program Loan Revocations

The following conditions shall be cause for revocation of the City approval for a Program Loan:

- a. Unless waived in writing by the City, whenever the borrower is not in compliance with the qualification requirements for a Program Loan.
- b. Upon discovery by the City, Program Staff, or a Participating Lender of any material misstatement, whether negligent or fraudulent.
- c. Upon City receipt of lender notification of any circumstance which would disqualify a Program Loan recipient from eligibility under the Program.

2.3 Eligible Applicants

Applicant means any person or persons who is in the process of securing financing for the purchase of a Principal Residence and is applying for Program Assistance from the City under the Program. To be eligible for Program Assistance under the Program, Applicants must be first-time homebuyers, be low- or moderate-income, plan to occupy the property as their principal residence, and complete an approved homebuyer education course.

First-Time Homebuyer

Applicants must be "first-time homebuyers" as defined in this section. Applicants cannot have had an ownership interest in a Principal Residence at any time during the three-year period ending on the date the Program Loan is executed. This requirement qualifies the borrower as a "first-time homebuyer". The Applicant must sign an affidavit to the effect that they have had no ownership interest in a Principal Residence at any time during the three-year period prior to the date on which the mortgage relating to Program Loan is executed. This must be verified by examination of the Applicant's federal tax returns for the preceding three years, to determine whether they have claimed a deduction for mortgage interest or taxes on a Principal Residence.

To demonstrate compliance with this three-year requirement, Applicant(s) must complete and sign the Program affidavits and provide copies of their last three (3) years of signed state and federal tax returns (or alternative exhibits acceptable to the City, as described below).

- a. The Applicant(s) must submit with the application to the City, signed 1040A, 1040EZ, or 1040 federal income tax returns for the three preceding years with all schedules and attachments which reflect no deductions for mortgage interest or real estate taxes for a Principal Residence.
- b. If the Applicant(s) has filed the returns for the last three (3) years, completes and signs the required affidavits, but is unable to produce the signed returns, the City will accept IRS transcripts provided directly to the City.
- c. In the event the Applicant(s) was not obligated to file federal income tax returns for any of the preceding three (3) years, it will be necessary for the Lender to obtain from the Applicant(s) a completed and signed Income Tax Affidavit which is required in place of (a) or (b) above, along with the other Program Affidavits. This document is to be forwarded to the City with the Application Affidavit and the Lender Initial Certification. The Income Tax Affidavit must be accompanied by documented proof of the reason for not filing tax returns. For example, if the Applicant was in school, he/she would have to submit a copy of transcripts to support the status of the Applicant for that period of time. Affidavit must also be accompanied by documented proof that the Applicant was a renter during the specified period (i.e. notarized letter from the landlord or manager, canceled checks, or rent receipts). The City shall also obtain an IRS verification of non-filing for any household members who did not file returns.

- d. When a Program application is submitted during the period between January 1 and April 15 and the Applicant has not yet filed their Federal income tax return for the preceding year with the IRS, the City may, with respect to such year, rely on an affidavit of the Applicant that the Applicant is not entitled to claim deductions for taxes or interest on indebtedness with respect to property constituting their Principal Residence for the preceding calendar year. The affidavit must be forwarded to the City with the Application Package.
- e. If the tax returns indicate the Applicant took a deduction for mortgage interest or real estate taxes on property claimed not to be the Principal Residence, documentation will be required to show proof of rental (i.e., rent receipts, canceled checks). The Lender is cautioned that in the above noted situations involving issuance of a conditional Program Loan Commitment, the Lender may be closing the loan without the benefit of the City review of the certified tax returns prior to closing. In the event the certified tax returns do show a deduction for interest or taxes on a Principal Residence, or in the event the certified tax returns are not obtained; the City will not issue the Program Loan. The Lender, at its option, may forward federal tax return exhibits to the City for review prior to loan closing.
- f. Notwithstanding the above, at the discretion of the City, this requirement may be modified or waived in order to allow households meeting all other eligibility criteria to participate in the Program. Special circumstances shall be documented, and consideration given to households that have sold or transferred an ownership interest because of death or illness of spouse or dissolution of marriage, job-related relocation, or other significant reasons.

The following individual or individuals may not be excluded from consideration as a first-time homebuyer under this definition:

- a. A “Displaced Homemaker” who, while a homemaker, owned a home with his or her spouse or resided in a home owned by the spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive twelve-month period and who has:
 - a. withdrawn from the labor market (i.e. not sought employment), been unemployed or underemployed, or experienced difficulty in obtaining or upgrading employment; and
 - b. worked primarily without remuneration to care for his or her home and family.
- b. A Single Parent who, while married, owned a home with his or her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant; and
- c. An individual or individuals who owns or owned, as a principal residence during the three-year period before the purchase of a home with Program Assistance, a dwelling unit whose structure is:
 - a. Not permanently affixed to a permanent foundation in accordance with the local and state regulations, or
 - b. Not in compliance with state and local building codes and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

Income Eligibility

To qualify for a Program Loan, Applicants must have an annual gross household income which does not exceed the limits for moderate-income households, defined by the California Department of Housing and Community Development (HCD) as 150% of Area Median Income (AMI) for high-cost areas. Los Angeles County has been designated as a high-cost area in the FY2020 PLHA NOFA (published October 23, 2020), pursuant to the Federal Housing Finance Agency's Maximum Loan Limits for Mortgages Acquired in Calendar Year 2020.

HCD publishes Official State Income Limits each year, which can be found on the HCD website at <https://www.hcd.ca.gov/grants-and-funding/income-limits/state-and-federal-income-rent-and-loan-value-limits>. The HCD publication includes limits up to 120% AMI for Los Angeles County. The Los Angeles County Department of Regional Planning publishes the 150% AMI income limits for the County each year. These income limits can be found on the LA County Department of Regional Planning website at <https://planning.lacounty.gov/applications-and-forms/>.

Program Staff will obtain the applicable income limits each year and make them available to Participating Lenders and Program Applicants. The current year income limits are attached to this manual as an addendum.

✓ TASKS	Obtain and disseminate HCD income limits
1. Download 150% AMI income limits from LA County Regional Planning website and make them available to Participating Lenders and Program Applicants	
Preparer:	Program Staff
Timeframe:	Annually
Approval:	N/A
Documents:	LA County Planning Affordable Housing Income and Rent Limits
Records Retained:	LA County Planning Affordable Housing Income and Rent Limits
Retention Period:	N/A
Retention Location:	N/A

Income determinations must be based on a review of at least two (2) months of supporting source documentation in conformance with the requirements of this Policies and Procedures manual. Income determinations must be completed no earlier than six (6) months prior to committing Program funds to the potential homebuyer (the commitment date is the date the Program Agreement is signed by the potential homebuyer). If an income determination or the supporting documentation used to make the determination is greater than six (6) months old at the time of committing funds to the potential homebuyer, then a re-examination of the income shall be performed prior to loan funding.

Income cannot exceed the listed income limit maximums prior to funding the Program Assistance. If a higher income amount is utilized for consideration of the first mortgage prior to closing, the City must be notified accordingly, and a reconciliation of the income variances performed.

Annual gross income shall be calculated in conformance with the requirements set forth under 24 CFR Part 5.609. Annual income is based on a projection of anticipated income for the next twelve (12) months. Annual income calculations must include the income of all household members. This includes:

- a. income received by each member who is 18 years of age or older;

- b. income received by the head of household or spouse of the head of household; and
- c. unearned income by or on behalf of each dependent who is under 18 years of age.

Annual income calculations should exclude the items contained in 24 CFR 5.609(b). The US Department of Housing and Urban Development (HUD) “Technical Guide for Determining Income and Allowances for the HOME Program” includes guidance and resources for determining annual income according to 24 CFR Part 5. The Guide is included as an addendum to this manual.

Self-Employed or Seasonal Employees: In specific instances, such as self-employed or seasonal persons, the Applicant's monthly gross income information can be derived and projected based on the available loan documents executed during the six-month period preceding the date of the closing of the mortgage provided that any income not included in the loan documents must be included for the Program. Thus, for example, if the mortgagor does not include alimony on the loan documents with the Lender, the Lender must determine the amount of alimony and add that amount shown on the loan documents when determining gross monthly income. Under these circumstances, the formula that the Lender uses in determining the gross monthly income of self-employed persons and/or seasonal workers is acceptable as long as the Lender includes any other income sources that are required to be added.

Principal Residence Requirement

The Applicant must occupy the housing being purchased with the Program Assistance as a Principal Residence. The Lender must obtain from the Applicant, using the Program affidavits; a statement of the borrower's intent to use the residence as their Principal Residence within a reasonable time (60 days) after the Program Assistance is issued. The affidavit further provides that the Program Assistance recipient will notify the Lender and the City if the residence ceases to be the Applicant's Principal Residence. Owner occupancy is subject to monitoring.

Homebuyers may request a temporary waiver of the principal residence requirement in situations involving extreme hardship, such as deployment for members of the armed forces. The granting of such waiver is exceptionally limited and shall be at the sole discretion of the City. Rental of the property shall be prohibited without the express written consent of the City.

Housing Counseling Requirement

All homebuyers that receive Program Assistance must receive housing counseling. Participants in the City's Program are required to complete eight (8) hours of HUD-approved in-person or virtual home buyer education prior to receiving Program Assistance. This requirement is to ensure that homebuyers are educated regarding the responsibilities and obligations of homeownership. This housing counseling must be provided by a HUD-certified housing counselor. To be eligible for Program Assistance, Program Participants must submit verification of completion of this requirement in the form of a completion certificate, prior to final Program Assistance commitment.

Written Agreement

Prior to awarding Program funds to an eligible homebuyer, the City will enter into a Written Agreement with the homebuyer. At minimum, the written agreement must include the purchase price, the amount and form of Program Assistance, that the housing will be the principal residence of an income qualified homebuyer for the duration of the period of affordability, the recapture provisions applicable to the property, the date by which housing must be acquired, the address or legal description of the property, the period of affordability applicable to the property, remedies or actions the City will take if the principal residence requirement is not met for the duration of the period of affordability, and the City's refinancing guidelines should the homeowner decide to refinance the superior loan. A comprehensive list of the specific required elements of written agreements are included in Exhibit 27: Homebuyer Written Agreement Checklist.

Other Requirements

Lender credit and underwriting criteria

The Applicant must meet credit and underwriting criteria established by the Participating Lender providing the primary mortgage loan, taking into account the value of the Program Assistance. The Applicant household shall have sufficient income and credit worthiness to qualify for a 30-year fixed rate mortgage as defined by their selected lender.

Co-owners

Co-owners, other than owner occupants, are not permitted. This rule is included to prohibit investors from utilizing qualified persons to purchase property for their own investment purposes.

Conflict of interest

No person who is an employee, agent, consultant, officer, or elected official or appointed official of the City who exercise or have exercised any functions or responsibilities with respect to this Program or who are in a position to participate in a decision-making process or gain inside information with regard to these activities may obtain a financial interest or financial benefit from a Program-assisted activity, or have a financial interest in any contract, subcontract, or agreement with respect to the Program-assisted activity, or the proceeds from such activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one year thereafter. Immediate family ties include (whether by blood, marriage or adoption) the spouse, parent (including a stepparent), child (including a stepchild), brother, sister (including a stepbrother or stepsister), grandparent, grandchild, and in-laws of a covered person.

2.4 Eligible Properties

Property eligible for acquisition using Program Assistance includes real property located within the corporate city limits of the City of Paramount that meet the criteria below.

Type of Housing

Program Assistance may be used to acquire a new or resale (i.e., previously occupied) home that fits into one of the following categories:

- a. Single-family home, including a manufactured home that is on a permanent foundation, connected to permanent utility hook-ups, and located on land that is owned by the manufactured housing owner, owned as a cooperative, or is subject to a leasehold interest with a term equal to at least the term of the mortgage financing on the unit or the period of affordability (whichever is greater).
- b. A condominium (as defined by subdivision (c) of the [California Business and Professions Code Section 11004.5](#).
- a. A dwelling unit in a stock cooperative, as defined by the [California Business and Professions Code, Section 11003.2](#).
- b. A dwelling unit in a community apartment project, as defined by the [California Business and Professions Code Section 11004](#).

Purchasing Rental Units

Homes that are rental units at the time they are listed for sale are not eligible except under the following circumstances:

1. The current tenant is the purchaser;

2. The current tenant is moving out of the rental property because they are purchasing their own home; or
3. The unit has been vacant for at least 90 days prior to the offer to purchase. If a vacant unit is to be purchased, the owner/seller must certify in writing that the unit has been vacant for 90 days preceding the date of the purchase agreement/offer.

Property Standards

Properties that are purchased with Program funds must meet the City's property standards. The City's property standards require that housing is decent, safe, sanitary, and in good repair, and that it meets all applicable state and local housing quality standards and code requirements.

The property selected by the Applicant will be inspected by Program Staff, or their designees, prior to final Program Assistance approval. This onsite visual inspection will be performed to ensure that the home is in compliance with all City codes, ordinances, and zoning requirements and meets the City's property standards at the time of the purchase. The inspection must take place no earlier than 90 days prior to the final commitment of Program funds.

If the housing does not meet these standards upon inspection, the housing must be rehabilitated to meet the standards prior to the commitment of Program funds. Program Staff shall ensure that all repairs needed to meet the property standards requirements are met prior to the approval of any Program funding for the proposed acquisition. If the housing does not meet the City's established property standards, it cannot be acquired with Program funds.

Lead-Based Paint

Program Staff shall ensure that the following requirements are met for housing units built prior to 1978 for which Program Assistance is anticipated:

1. Prior to the homebuyer entering into an obligation to purchase a pre-1978 housing unit (i.e., at the time the purchase offer is initiated), the LBP Hazard Disclosure Form (see Exhibit 10) must be provided to the seller. Both the seller and the homebuyer must complete and sign the notice.
2. Prior to homebuyer's obligation to purchase a pre-1978 home (i.e., the date of closing), the homebuyer will be given the most recent copy of the EPA pamphlet *"Protect Your family From Lead in Your Home"* (EPA 747- K-12-001) and will be asked to read it. The homebuyer must sign LBP Pamphlet Confirmation Form (see Exhibit 12) acknowledging they have received the pamphlet.

Flood Insurance

Properties to be acquired using Program funds and that are located in areas identified by the Federal Emergency Management Agency (FEMA) as having special flood hazards are required to obtain flood insurance protection prior to the approval of Program Assistance and throughout the duration of the Program Assistance (i.e., the affordability period). There are presently no areas in the city limits of the City of Paramount identified by FEMA as having special flood hazards.

Acquisition Notice

An "Acquisition Notice" containing the items listed below must be provided to the seller prior to, or at the same time the purchase offer is presented by the buyer's agent (see Exhibit 9, Arm's Length Disclosure Notice):

1. Buyer does not have the power of eminent domain and, therefore, will not acquire the property if negotiations fail to result in an amicable agreement.
2. Buyer or buyer's agent's estimate of the fair market value. (An appraisal is not required; however, the grantee's files must include an explanation, with reasonable evidence, of the basis for the estimate-like comparable.)
3. The buyer shall provide this information to the seller before making the purchase offer.
4. If the buyer's agent does not provide the seller with an acquisition notice prior to the purchase offer, a provision in the contract should empower the seller to withdraw from the agreement after this information is provided.

Program Staff shall ensure compliance with these requirements by a timely transmittal, receipt, and review of the Arm's Length Disclosure Notice (see Exhibit 9).

2.5 Responsible Lending/Lender Requirements

The City has adopted the following requirements regarding primary loans and lenders participating in the Program:

1. **Primary Loan Requirement:** Program Assistance may only be issued in conjunction with a New Mortgage Loan. The Lender must obtain from the Applicant, using the Program affidavits, a statement to the effect that the mortgage being acquired in connection with the Program Assistance will not be used to acquire or replace an existing mortgage or land sales contract.
2. **Primary Loan Terms:** The primary loan must be a fixed rate, 30-year fully amortized loan, with terms, loan conditions, and costs consistent and competitive with current market conditions. Prepayment penalties are not permitted.
3. **Primary Lender Loan Charges and Fees:** The Primary Lender may charge a potential borrower applying for a Program Assistance Loan only those reasonable and customary fees as would be charged to a potential borrower applying for mortgages not provided in connection with a Program Assistance Loan. The imposition of excessive processing charges, fees, or interest rates which are not consistent with market conditions will be cause for denial of the City loan approval.
4. **Transferability:** The Program Assistance is not transferable.
5. **Secondary Market:** The Lender must determine whether a subsidized financing program meets Fannie Mae requirements. To sell primary mortgage loans to Fannie Mae where such assistance is provided, the lender must execute and submit a specific warranty for the particular subsidized financing program. The lender will also be responsible for determining if the Program Assistance meets Freddie Mac, FHA, and VA requirements.
6. **Eligible Lenders:** Any direct lender can be a Program Assistance Lender, as long as they meet and follow all program requirements. If developed by the City, a list of previous participating lenders shall be made available to buyers upon request.
7. **Minimum Borrower Contribution:** The Homebuyer Opportunity Program requires homebuyers to make a minimum down payment contribution equal to 1% of the purchase price. Homebuyers may be required to make a larger out-of-pocket contribution toward down payment or closing costs in order to comply with any applicable federal or state requirements, or to satisfy the requirements of the first mortgage.
8. **The City's Program Assistance in conjunction with the Primary Loan and the Applicant down-payment amounts must provide sufficient resources to address all property acquisition costs. In the**

event that the total resources available are insufficient to close escrow, the City Program Assistance will not be approved.

9. The Primary Lender must provide to the Applicant the maximum loan amount available at a market competitive fully amortized fixed rate, based on its underwriting and review of their capacity. The Applicant must accept the maximum loan amount offered by the Primary Lender.

2.6 Monitoring

The City is responsible for ensuring that PLHA-funded programs and projects comply with all relevant regulations and requirements governing the administrative, programmatic, and financial management of PLHA funds. Monitoring, which is a review of program or project performance and compliance, is the primary tool that the City uses to ensure that PLHA-funded programs and projects are being carried out in accordance with these requirements. There are several types of monitoring, including:

- Administrative and Financial monitoring, which ensures that the City and its subrecipients, as applicable, are administering the program properly (i.e., using funds from authorized sources, tracking funds, using proper methods of recordkeeping, and managing finances appropriately).
- Program monitoring, which reviews the operations and management of the City and its subrecipients, as applicable, for efficiency, effectiveness, compliance, etc. This kind of monitoring focuses on overall program performance.
- Project monitoring, which ensures that projects are in compliance with all standards required by the source of funds. This kind of monitoring focuses on the compliance of an individual project, which in this case refers to each home purchase transaction.

Monitoring will be carried out in accordance with the City's established policies and procedures.

Owner-Occupancy and Insurance Recertifications

In addition to other monitoring activities, on an annual basis Owner-Occupancy must be verified and, on an ongoing basis, insurance coverage must be maintained by homeowners. To ensure these requirements are met, the following steps will be taken by Program Staff:

1. An annual owner-occupancy certification shall be performed by Program Staff for all properties that have received Program Assistance.
2. The City shall be named as a beneficiary on hazard insurance policies and shall be notified of modifications or cancellations of insurance coverage. Program Staff shall ensure that annual certificates of insurance are received, provide sufficient coverage, and name the City as an added insured.

2.7 Record Retention

Records for all transactions, funded and unfunded shall be retained for five years after the project completion date, except for documents imposing recapture restrictions which must be retained for five years after the affordability period terminates, or until the acquired property is transferred and the City loan is fully paid, whichever is longer.

2.8 Nondiscrimination

The Program will be implemented in a manner consistent with the City's commitment to nondiscrimination. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity funded in whole or in part with State or Federal funds on the basis of his or

her religion or religious affiliation, age, race, color, creed, gender, sexual orientation, marital status, familial status (children), physical or mental disability, national origin, or ancestry, or other arbitrary cause.

2.9 Changes and Modifications to these Policies and Procedures

Minor changes to these Policies and Procedures involving administrative procedures or accommodations to adapt to regulatory changes may be performed with the approval of the Planning Director. State regulatory requirements may not be amended.

3. PROGRAM ADMINISTRATION AND PROCEDURES

3.1 Program Administration

The City of Paramount is the entity responsible for operating and administering the Program. Staff in the Planning Division of the Planning Department are responsible for the day-to-day operations of the Program.

3.2 Program Procedures

This section sets forth the sequence of events and the procedural tasks for the Homebuyer Opportunity Program. The section is organized into six (6) major phases and each phase is divided into major steps, each of which is directly associated with an Applicant, Administrator/City, and/or Lender activity. The flowchart attached as an addendum to this manual shows the overall process for the Program.

Application Phase

During the Application Phase, Program Staff respond to potential Applicant inquiries to ensure the best chance of preliminary approval and provide the Program Application Cover Letter (Exhibit 2a) and Program Application (Exhibit 2b) to prospective Applicants with instructions. Applicants complete the application and submit it to the City with all required documentation (listed below). An application will not be considered complete until all required documents are submitted, including:

1. Completed Program Application (Exhibit 2b)
2. Photo IDs for all adult household members
3. Signed copies of last three years federal tax returns
4. Copies of three consecutive months current pay stubs
5. Last three consecutive months of bank statements and asset statements
6. Documentation in the form of a bank statement or other acceptable asset statements, of seasoned cash funds (90 days) available for borrowers down payment and closing costs
7. Signed IRS Form 4506-C (Exhibit 3)
8. Signed Fair Lending-ECOA Notice (included in Program Application)
9. Applicant signed Income Verification Form and signed Employment Verification Form (included in Program Application)

Upon receipt of a complete application, Program Staff will record the date and time of receipt on the Applicant Status Checklist (Exhibit 4), review submitted application materials to determine Program participation eligibility and complete the Income Determination Worksheet (Exhibit 5), prepare the Loan Review Committee Applicant Eligibility Summary form (Exhibit 6) and Loan Approval Schedule (Exhibit 7), package all eligible applications and underwriting materials for Loan Review Committee (LRC) approval, schedule and conduct the LRC meeting during which the LRC will determine whether to provide preliminary approval of the application, and notify Applicant in writing of the LRC determination.

All Program Applications will be processed by Program Staff in the order they are received, until all available funding has been allocated. The date of receipt is the date a completed application is submitted.

The Loan Review Committee shall be composed of the following persons: Planning Director, Assistant Planning Director, Program Manager (i.e. Management Analyst).

If the Applicant receives a preliminary approval by the LRC, a Pre-Approval Letter (Exhibit 8) and an Initial Reservation Request Form (Form HOP-1) are issued to the Applicant along with instructions for the next steps in the approval process. The Applicant is also advised of the 90-day period during which the next steps must be completed.

✓ TASKS	Application Submission, Applicant Eligibility and Underwriting Review, and LRC Preliminary Determination
1. Receive application packet from Applicant, review for completeness, and follow up with Applicant for additional documents as needed.	
2. Date and time of submission is recorded for complete applications on Applicant Status Checklist (Exhibit 4).	
3. Review complete Program Application. Determine Applicant eligibility and conduct income determination using the Income Determination Worksheet (Exhibit 5). If Applicant deemed eligible, proceed to next step. If Applicant deemed ineligible, inform Applicant in writing of the City's determination and their right to appeal, and stop process.	
4. Schedule Loan Review Committee meeting.	
5. Draft Loan Review Committee Applicant Eligibility Summary form (Exhibit 6) and send to LRC along with application materials prior to meeting.	
6. Hold LRC meeting to obtain LRC determination. Record LRC decision on Loan Approval Schedule (Exhibit 7). If LRC does not provide preliminary approval of Program Assistance, inform Applicant and stop process. If LRC provides preliminary approval of Program Assistance, proceed to next step.	
7. Draft a Pre-Approval Letter (Exhibit 8) and Initial Reservation Request Form (Form HOP-1) and issue them to the Applicant along with these lending procedures and notice of 90-day completion period.	
Preparer:	Program Staff
Timeframe:	As applications are received
Approval:	Loan Review Committee approves Program Assistance
Documents:	Program Application (Exhibits 2a and 2b); Applicant Status Checklist (Exhibit 4); Income Determination Worksheet (Exhibit 5); Loan Review Committee Applicant Eligibility Summary form (Exhibit 6); Loan Approval Schedule (Exhibit 7); Pre-Approval Letter (Exhibit 8); Initial Reservation Request Form (Form HOP-1)
Records Retained:	Program Application (Exhibits 2a and 2b); Applicant Status Checklist (Exhibit 4); Income Determination Worksheet (Exhibit 5); Loan Review Committee Applicant Eligibility Summary form (Exhibit 6); Loan Approval Schedule (Exhibit 7); Pre-approval letter (Exhibit 8); Initial Reservation Request Form (Form HOP-1)
Retention Period:	Five years after the project completion date

✓ TASKS	Application Submission, Applicant Eligibility and Underwriting Review, and LRC Preliminary Determination
Retention Location:	Planning Department and City Clerk's office

Primary Lender Commitment Phase

During the Primary Lender Commitment Phase, the Applicant takes the Reservation Request Form to a lender to obtain pre-qualification and apply for a primary loan. The Lender verifies that the Applicant has the City pre-approval letter, provides information on their mortgage program to Applicant, and determines if Applicant is eligible under City Program requirements (income limits, purchase price limits, etc.).

The Lender estimates the amount of the Program Assistance subsidy in order to establish the home purchase price the Applicant can afford. The estimated Program Assistance amount is calculated by the Lender in accordance with the guidelines established in the section of this manual titled, "Homebuyer Underwriting and Determination of Amount of Assistance."

The Lender uses this information to complete the Initial Reservation Request Form (Form HOP-1), which it then transmits to the City along with a pre-qualification letter.

✓ TASKS	Primary Lender Commitment
<ol style="list-style-type: none"> Applicant takes the Initial Reservation Request Form and Pre-Approval Letter (Exhibit 8) to a lender, or lenders, to obtain pre-qualification and apply for a primary loan. Lender verifies that Applicant has the City Pre-Approval Letter (Exhibit 8), provides information on their mortgage program to Applicant, determines if Applicant is eligible under City Program requirements (income limits, first-time homebuyer, etc.), estimates the amount of the Program Assistance subsidy, and explains Program Assistance so that Applicant understands Program requirements. Lender completes the Initial Reservation Request Form (Form HOP-1) and transmits to the City. 	
Preparer:	Step 1: Applicant Steps 2-3: Lender
Timeframe:	After preliminary approval by LRC and issuance of City pre-approval letter.
Approval:	N/A
Documents:	Pre-Approval Letter (Exhibit 8); Initial Reservation Request Form (Form HOP-1)
Records Retained:	Initial Reservation Request Form (Form HOP-1)
Retention Period:	Five years after the project completion date
Retention Location:	Planning Department and City Clerk's office

Property Selection Phase

Upon receipt of the Initial Reservation Request Form (Form HOP-1) and a pre-qualification loan commitment from the Lender, the City prepares realtor documentation to be delivered by the Applicant to their selected realtor, including the Arm's Length Disclosure Notice (Exhibit 9), and LBP Hazard Disclosure Form (Exhibit 10). The City also sends the EPA Lead Paint Pamphlet (Exhibits 11a and 11b) and LBP Pamphlet Confirmation Form (Exhibit 12) to Applicant for them to sign and return. Applicant reviews the EPA Lead Paint Pamphlet (Exhibits 11a and 11b), signs the LBP Pamphlet Confirmation Form (Exhibit 12), and returns the signed form to the City.

The Applicant selects a realtor and provides the realtor with documentation provided by the City. The Applicant finds a home that meets the Program's Eligible Property criteria and enters into a purchase contract with contingency language based on City approval of loan funding and loan amount, and inspection of property. The Applicant submits the signed purchase contract to the City. The purchase contract must be signed within 90 days from the date of the City's pre-approval letter.

Note: At this point the Applicant should also have enrolled in an approved Homebuyer Education Course in order to ensure they meet the housing counseling requirement.

✓ TASKS	Property Selection and Purchase Agreement
1. City provides realtor documentation to Applicant—Arm's Length Disclosure Notice (Exhibit 9) and LBP Hazard Disclosure Form (Exhibit 10)—along with EPA Lead Paint Pamphlet (Exhibits 11a and 11b) and LBP Pamphlet Confirmation Form (Exhibit 12) to Applicant for them to sign and return.	
2. Applicant reviews the EPA Lead Paint Pamphlet (Exhibits 11a and 11b), signs the LBP Pamphlet Confirmation Form (Exhibit 12), and returns the signed form to the City.	
3. Applicant selects a realtor and provides them with realtor documentation (Exhibits 9, 10, 11a, 11b, and 12) from City.	
4. Applicant finds a home and enters into a purchase contract with contingency language based on City approval of loan funding and loan amount and inspection of property.	
5. Applicant informs City of property address and forwards a copy of the contingent purchase agreement with required LBP Hazard Disclosure Form and Arm's Length Disclosure Notice.	
Preparer:	Steps 2-5: Applicant Steps 1 and 4: Program Staff
Timeframe:	Within 90 days of issuance of City pre-approval letter and Initial Reservation Request Form
Approval:	N/A
Documents:	Arm's Length Disclosure Notice (Exhibit 9); LBP Hazard Disclosure Form (Exhibit 10); EPA Lead Paint Pamphlet (Exhibits 11a and 11b); LBP Pamphlet Confirmation Form (Exhibit 12); Purchase Agreement with LBP Hazard Disclosure Form and Arm's Length Disclosure Notice
Records Retained:	Purchase Agreement with LBP Hazard Disclosure Form and Arm's Length Disclosure Notice; LBP Pamphlet Confirmation Form (Exhibit 12)
Retention Period:	Five years after the project completion date
Retention Location:	Planning Department and City Clerk's office

Property Review and Inspection Phase

Once the Applicant provides the signed purchase agreement to the City, Program Staff review the purchase contract to ensure the property meets Program requirements.

During this phase, Program Staff will obtain building records for the property and schedule onsite inspections of the property for conformance with property standards requirements.

If the property does not meet property standards requirements, Program Staff will issue correspondence addressing corrective measures that must be undertaken to provide compliance, and that provides timeframes for completion of the indicated corrective measures. Upon completion of the corrections, Program Staff shall re-inspect the property for compliance.

✓ TASKS	Property Review, Inspection, and Testing
1. Upon receipt of purchase contract from Applicant, review purchase contract to ensure conformance with Program requirements.	
2. Obtain building records for the property and schedule inspections for property standards requirements.	
3. Perform property inspection and complete the Property Inspection Form (Exhibit 13). If the property inspection identifies deficiencies, issue a Corrections Letter (Exhibit 14), and perform follow-up reviews until all required items have been addressed.	
4. If corrections to address property standards deficiencies are not performed, inform Lender/Applicant that Program Assistance cannot be provided for the property.	
Preparer:	Program Staff
Timeframe:	Immediately upon receipt of purchase contract; Inspections must be completed no earlier than 90 days prior to commitment of Program Assistance.
Approval:	N/A
Documents:	Property Inspection Form (Exhibit 13); Corrections Letter (Exhibit 14)
Records Retained:	Property Inspection Form (Exhibit 13); Corrections Letter (Exhibit 14)
Retention Period:	Five years after the project completion date
Retention Location:	Planning Department and City Clerk's office

Final Program Loan Approval Phase

The Applicant completes and signs the Application Affidavit (Form HOP-2), which the Lender submits to the City. Form HOP-2 contains all certification and affidavits required by the Program. These requirements are:

- a. Certification that residence will be used as Principal Residence and that the City certificate holder must notify the City and the Lender when the home ceases being the Principal Residence of the certificate holder.
- b. Certification that borrower has not had an ownership interest in a Principal Residence during preceding 3-year period.

- c. Certification that the Mortgage Loan does not relate to the acquisition or replacement of an existing mortgage.
- d. Certification that loan applied for does not constitute a Prohibited Mortgage.
- e. Certification that borrower's income does not exceed permitted income limits.
- f. Certification that no interest with respect to the mortgage loan is being paid to a Related Person.
- g. Certification that Program Assistance cannot be transferred without the prior written approval of the City in accordance with Program requirements.
- h. Certification that Program Applicant has completed an approved Homebuyer Education course.
- i. Acknowledgment that any material misstatement or fraud is made under penalty of perjury.

Within the 90-day period following the City's pre-approval letter, the Lender must perform the following standard underwriting and verification procedures:

- a. Lender performs standard mortgage loan underwriting procedures but takes into consideration the effect of the Program Assistance when determining the net amount of the monthly payment. Lender determines acceptability of loan in accordance with applicable FNMA, FHLMC, FHA, VA, and/or private mortgage insurance standards and/or underwriting guidelines.
- b. Lender performs standard verification for loan underwriting. In conjunction with Lender's regular verification process and under the written agreement with the City, the Lender performs a reasonable investigation to verify that all Homebuyer Opportunity Program requirements have been satisfied. Lender may verify these facts in any reasonable, efficient manner, according to standard industry practices for processing mortgage loan applications.
- c. Lender verifies that the borrower, the home, and the mortgage transaction comply with Homebuyer Opportunity Program restrictions on Income, Property Type, Affordability, and all other Program terms and requirements.
- d. Lender completes all other standard underwriting and verification procedures. During this Phase, the Lender must notify the City in writing of cancellations of Reservations.

Once underwriting is complete, the Lender submits a complete copy of the lender loan package, inclusive of lender loan application, appraisal, good faith estimate, loan approval letter detailing amount and terms of the loan to be provided, sample promissory note, and purchase contract.

Upon receipt of the Application Affidavit (Form HOP-2) and Loan File from the Lender, Program Staff completes the following:

- a. Confirm that the Program Assistance Reservation is still active and has not expired. If expired, a 30-day written extension may be issued.
- b. Review the Program Assistance Submission package for completeness and determine whether all necessary certifications and affidavits are included and properly executed.

- c. Determine consistency of the Primary Lender's loan file with the documentation received from the Applicant by the City.
- d. Complete final homebuyer underwriting and determination of amount of Program Assistance.

If the City determines the Program Assistance Submission Package is completed properly and that the Applicant(s) and the transaction are in compliance with Program provisions, Program Staff will issue correspondence to the Lender with copy to the Applicant advising of the Program Assistance amount and stating that the application is approved and the City is prepared to issue the Program Assistance upon confirmation of the mortgage closing, so long as there are no material changes from the time of the initial review. The City retains a complete copy of the Submission Package and Loan File.

✓ TASKS	Final Program Loan Review and Approval
<ol style="list-style-type: none"> 1. Applicant completes and signs the Application Affidavit (Form HOP-2) and submits it to the Lender. 2. Lender reviews Application Affidavit (Form HOP-2) for completeness and submits it to the City. 3. Lender underwrites mortgage loan and verifies eligibility for Homebuyer Opportunity Program. 4. Lender submits a complete copy of the loan file to the City. 5. Upon receipt of the Application Affidavit (Form HOP-2) and Loan File from the Lender, confirm that the Program Assistance Reservation is still active and has not expired. If expired, a 30-day written extension may be issued. 6. Review the Program Assistance Submission package for completeness and determine whether all necessary certifications and affidavits are included and properly executed. 7. Determine consistency of the Primary Lender's loan file with the documentation received from the Applicant by the City, and for compliance with all Program requirements. 8. Conduct final homebuyer underwriting using the Applicant Final Analysis Worksheet (Exhibit 15a) and Loan Reduction Worksheet (Exhibit 15b). 9. If Program Assistance Submission Package is completed properly and the Applicant(s) and transaction are in compliance with Program provisions, issue Final Approval Letter (Exhibit 16) to Lender with copy to the Applicant advising of the Program Assistance amount and stating that the application is approved and the City is prepared to issue the Program Assistance upon confirmation of the mortgage closing, so long as there are no material changes from the time of the initial review. 10. File complete copy of the Submission Package and Loan File. 	
Preparer:	Step 1: Applicant Steps 2-4: Lender Steps 5-10: Program Staff
Timeframe:	Form HOP-2 and Loan File submitted to City within 90 days of issuance of City pre-approval letter and Initial Reservation Request Form
Approval:	N/A

✓ TASKS	Final Program Loan Review and Approval
Documents:	Application Affidavit (Form HOP-2); Loan File; Applicant Final Analysis Worksheet (Exhibit 15a); Loan Reduction Worksheet (Exhibit 15b); Final Approval Letter (Exhibit 16)
Records Retained:	Application Affidavit (Form HOP-2); Loan File; Applicant Final Analysis Worksheet (Exhibit 15a); Loan Reduction Worksheet (Exhibit 15b); Final Approval Letter (Exhibit 16)
Retention Period:	Five years after the project completion date
Retention Location:	Planning Department and City Clerk's office

Loan Closing Phase

The submission of the Final Approval Letter (Exhibit 16) to the Lender constitutes Program Staff requesting approval of the mortgage loan. The Lender approves the mortgage loan with the applicant pursuant to normal procedures. Lender notifies the City of approval of loan application and forwards all loan and Program Assistance materials to selected Escrow Officer with instructions to open escrow.

At this time, the City executes the Homebuyer Written Agreement (Exhibit 17) with the Homebuyer.

Program Staff prepares City Program Assistance Loan documents and Escrow Instructions and obtains required City signatures. Completed documents are submitted to escrow.

Documents required for closing include:

- a. Promissory Note to evidence the Program Assistance (Exhibit 18)
- b. Deed of Trust on the property to secure the Program Assistance, including the Recapture Covenant (Exhibit 19)
- c. Affordable Housing Restriction (Exhibit 20)
- d. Truth in Lending Statement (Exhibit 21)
- e. Fair Lending Notice (Exhibit 22)
- f. Buyer Closing Affidavit (Form HOP-3) signed by Applicant at closing.
- g. Lender's Closing Certificate (Form HOP-4) certifying that there has been no material change that would disqualify Applicant from program.

Program Staff arranges for the transfer of Program Assistance Loan funds by wire transfer or check to Escrow. The Program Assistance Loan documents will be transmitted for recording at the same time as the first mortgage deed of trust.

✓ TASKS	Mortgage Loan Approval and Closing
	<ol style="list-style-type: none"> 1. Lender approves mortgage loan with Applicant and notifies City of approval of loan application. 2. Lender forwards loan and Program Assistance materials to selected Escrow Officer with instructions to open escrow. 3. Draft Homebuyer Written Agreement (Exhibit 17) and send to Homebuyer for signature/date. Upon return, sign and date the Homebuyer Written Agreement. 4. Fully executed Homebuyer Written Agreement is sent to the Homebuyer and City Clerk. 5. Prepare Program Assistance loan documents and Escrow Instructions, and obtain required signatures. 6. Transmit signed documents to Escrow. 7. Arrange for the transfer of Program Assistance Loan funds by wire transfer or check to Escrow. 8. At closing, Lender funds Primary Loan.
Preparer:	Steps 1-2 and 9: Lender Steps 3-8: Program Staff
Timeframe:	Commences after City submits Final Approval Letter (Exhibit 16) to Lender
Approval:	Step 3: Homebuyer Written Agreement must be signed by XX
Documents:	Homebuyer Written Agreement (Exhibit 17); Program Assistance Loan documents and Escrow Instructions
Records Retained:	Homebuyer Written Agreement (Exhibit 17); Program Assistance Loan documents and Escrow Instructions
Retention Period:	Five years after the affordability period terminates, or until the acquired property is transferred and the City loan is fully paid, whichever is longer
Retention Location:	Planning Department and City Clerk's office

Post-Loan Closing Phase

After closing, Program Staff will ensure compliance with post-escrow requirements, including recordation of the city's deed of trust and affordable housing restriction, obtaining of a lender's title policy and review for placement of the City lien, obtaining a tax service account for the term and amount of the City Loan, and review of the closing statement to ensure conformance with previously indicated transaction terms. Program Staff will also complete and record a Notice of Default (Exhibit 23). Documents will be transmitted to the City Clerk for storage. Program Staff will also ensure all required documents are included in the Homebuyer's file, using the Homebuyer File Checklist (Exhibit 1).

✓ TASKS	Post-Loan Closing Processes
	<ol style="list-style-type: none"> 1. After closing, ensure compliance with post-escrow requirements, including: recordation of the city's deed of trust and affordable housing restriction, obtaining of a lender's title policy and review for placement of the City lien, obtaining a tax service account for the term and amount of the City Loan, review of the closing statement to ensure conformance with previously indicated transaction terms, and completion and recordation of a Notice of Default (Exhibit 23).

✓ TASKS	Post-Loan Closing Processes
<ol style="list-style-type: none"> Transmit original signed promissory note to City Clerk for loan booking and storage. Ensure receipt of the recorded deed of trust, affordable housing restriction, and notice of default and transmit to City Clerk for storage. Review homebuyer file to ensure all required documents are saved and will be retained for the duration of the applicable record retention period. 	
Preparer:	Program Staff
Timeframe:	After closing
Approval:	
Documents:	Recorded Deed of Trust; Lender's title policy; closing statement; signed promissory note; Recorded Notice of Default (Exhibit 23); Homebuyer file checklist (Exhibit 1)
Records Retained:	Recorded Deed of Trust; Lender's title policy; closing statement; signed promissory note; Recorded Notice of Default (Exhibit 23); Homebuyer file checklist
Retention Period:	Five years after the affordability period terminates, or until the acquired property is transferred and the City loan is fully paid, whichever is longer
Retention Location:	Planning Department and City Clerk's office

Monitoring and Affordability Phase

Each year, Owner-Occupancy must be verified. On an ongoing basis, insurance coverage must be maintained by homeowners. To ensure these requirements are met, an annual owner-occupancy certification shall be performed by Program Staff for all Program Assistance and Program Staff shall ensure that annual certificates of insurance are received, provide sufficient coverage, and name the City as an added insured.

During the thirty (30) year affordability period, if there is a property sale, transfer, or program default of the conditions of the promissory note or the Affordable Housing Restriction, the City will provide for the recapture of Program funds in accordance with the written agreement with the homebuyer.

✓ TASKS	Annual Monitoring and Affordability Restrictions
<ol style="list-style-type: none"> Certify that homebuyers assisted with Program funds continue to meet the principal residency requirements of the Program. Request, receive, and review certificates of insurance to ensure they provide sufficient coverage and name the City as an added insured As necessary, upon property sale, transfer, or program default of the conditions of the promissory note or the Affordable Housing Restriction, recapture Program funds in accordance with the written agreement with the homebuyer. 	
Preparer:	Program Staff
Timeframe:	Steps 1-2: Annually through the duration of the Program Assistance

✓ TASKS	Annual Monitoring and Affordability Restrictions
	Step 3: As necessary
Approval:	N/A
Documents:	Annual owner-occupancy certification form; Certificate of Insurance
Records Retained:	Annual owner-occupancy certification form; Certificate of Insurance
Retention Period:	Five years after the affordability period terminates, or until the acquired property is transferred and the City loan is fully paid, whichever is longer
Retention Location:	Planning Department and City Clerk's office

3.3 Additional Considerations

Transfer of Program Loan Application to Another Lender

If an Applicant has a pending Program Loan application and decides to change from one Participating Lender to another, the City will honor the original expiration date of the Reservation as long as the buyer and the Property's status has not changed and the new Lender verifies the commitment documents.

If the change occurs following the Confirmation of Reservation, the new Lender should notify the City in writing that the change has occurred. The City will adjust its records and the Program Loan Number to reflect the new Lender.

Assignment of Program Loan Commitment for Funding

If a Primary Lender packages a loan with a Program Loan and assigns the loan to another Lender for funding, prior to the close of escrow, the original Lender should forward to Program Staff the Program Loan Assignment Letter indicating the loan has been assigned to the new funding Primary Lender, and identifying the new lender and lender contact information. Program Staff will adjust its records to reflect the new Primary Lender. The Program Loan will be issued in the funding Primary Lender's name. The funding Primary Lender will also be responsible for the reporting on that particular loan.

Changing Properties During the Program Application Process

If an Applicant has a pending application and changes the property they are purchasing, the realtor must perform the required pre-agreement notifications and contingency inclusions into the new purchase agreement, and in conjunction with the Lender submit a new signed Purchase Agreement and indicate by transmittal whether the mortgage amount has changed. If the Applicant has already been issued a commitment, the following documents should be revised and resubmitted to reflect the new property address and any change in mortgage amounts.

1. Application Affidavit (Form HOP-2)
2. The Commitment is re-issued with the original expiration date.

The revised property must also undergo inspection for conformance with the City's property standards requirements.

Changes Prior to Closing

The eligibility of Applicant for a Program Loan is based upon the Applicant's projected income. The Program will issue a commitment based on facts as they are verified as of the date the commitment is issued. The income verified for commitment is valid as long as the loan closes within four months after the financial information was originally submitted and there are no additional sources of income that were not previously reported.

Any changes in income whether already reported or not (e.g., unscheduled raises, new employer, etc.) affects the validity of a Program Loan commitment and must be taken into consideration. If the Applicant experiences a change in marital status after issuance of the commitment and prior to closing, the spouse must satisfy the prior homeownership requirements contained in the Application Affidavit and the Closing Affidavit, and the Lender must notify the Program. Any income added to the household income previously declared because of the new spouse should be considered and may affect the validity of the commitment.

Furthermore, any added or reduced source of income received after the issuance of the commitment, but prior to closing, should be disclosed and included in the income eligibility redetermination and potentially to the City funding amount determination.

Resubmission of Program Applications after Return or Rejection

If a Program Application has been returned or denied by Program Staff based on the Applicant submitted Program forms and documentation, any resubmission must include all information which Program Staff has determined necessary for reconsideration. A Program Application that is being submitted a second time will be reviewed in depth, and a final disposition made by Program Staff.

Restrictions on Reapplying to the Program for Applicants Deemed Ineligible

If an Applicant has been deemed ineligible for Program Assistance after the City has reviewed the complete Program Application, the Applicant must wait 12 months from the date they submitted their application before reapplying to the Program.

Appeals Process

Any person may file a written appeal with the City in any case in which the person believes that the City has failed to properly consider the person's application for Program Assistance, including, but not limited to, the person's eligibility for Program Assistance. The City will accept and consider written appeals regardless of form. Appeals should be submitted to the Planning Department.

Written appeals should be delivered to the City within 60 days after the person receives written notification of the City's determination on the person's Program Application. Subject to applicable laws, the City will permit a person to inspect and copy all materials pertinent to their appeal, except materials which are classified as confidential by the City.

In deciding an appeal, the City will consider all pertinent justification and other material submitted by the person, as well as all other available information that is needed to ensure a fair and full review of the appeal.

Promptly after receipt of all information submitted by a person in support of an appeal, the City will make a written determination on the appeal, including an explanation of the basis on which the decision was made, and furnish the person a copy. If the full relief requested is not granted, the City will advise the person of his or her right to seek judicial review of the City's decision.

The City official conducting the review of the appeal will be the Planning Director, except in the event that they were directly involved in the action appealed. In that case, they will designate another official to review the appeal.