



CITY COUNCIL AND HOUSING AUTHORITY AGENDA REPORT

MEETING DATE: June 11, 2013

ITEM NUMBER:

SUBJECT: Proposed Modifications to Costa Mesa Homebuyer Assistance Program Policies, Procedures and Guidelines Relating to the Conditions and Requirements for Refinancing of First Mortgages and Resubordination of Program Second Mortgages

DATE: June 5, 2013

FROM: Willa Bouwens-Killeen, Principal Planner

**PRESENTATION BY: Willa Bouwens-Killeen, Principal Planner
Celeste Brady, Special Counsel
Kathleen Head, Housing Consultant**

**FOR FURTHER INFORMATION CONTACT: Willa Bouwens-Killeen; 714.754.5153
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RECOMMENDATION:

Direct the City's Chief Executive Officer and the Executive Director of the Costa Mesa Housing Authority ("CMHA") to modify the Costa Mesa Homebuyer Assistance Program and the implementing policies, procedures and guidelines to allow for refinancing of first trust deed mortgages and re-subordination of Costa Mesa's second trust deed mortgages expressly subject to and so long as certain criteria are met by the home owner as set forth in this report and that such review and approval (or disapproval) be made on a case-by-case basis by staff, legal counsel and housing consultant.

BACKGROUND:

Since 1997, the Costa Mesa Redevelopment Agency ("former RDA" that is now dissolved) funded and administered the Costa Mesa Homebuyer Assistance Program ("Program" or "FTHB") that provided second mortgage assistance loans to qualified Low to Moderate Income homebuyers in the community as funded with the former RDA's 20% set-aside/low to moderate income housing monies ("Housing Fund"). The Program has been implemented pursuant to policies, procedures and guidelines and a Program manual (together, "Guidelines") that set forth the definitions, requirements, conditions and rules to apply for and participate in the Program and receive a second lien mortgage from Costa Mesa. The Program was established to encourage home ownership in Costa Mesa and was designed to assist low to moderate income households who, based on institutional underwriting criteria, were unable to qualify for and afford to purchase a home without RDA financial assistance. Qualifying properties were single-family detached houses, condominiums, or townhomes and each Program loan was evidenced by a promissory note, secured by a second trust deed, and was subject to a loan agreement and declaration of

conditions, covenants and restrictions (“CCRs”) recorded against the property. The CCRs include, among other provisions, covenants relating to owner-occupancy, prohibition against renting out all or any part of the home, ongoing maintenance requirements, and specific limitations on the re-sale, refinancing, or other transfer of any interest in the property during the affordability period, which for the “original” program (1997-2005) was 10 years and the “new” program (2005-2011) was 45-years.

Between 1997 and mid-2005, the maximum amount loaned under the Program was up to \$40,000 for a 30-year second mortgage with a 10-year deferral and then for years 11-30 amortized monthly payments are due by the home owner to Costa Mesa. Under the original Program approximately \$4.9 Million of Housing Funds were disbursed to Participants for second mortgage assistance loans; and as of this date about 14 original loans remain outstanding.

Due to home price increases that substantially exceeded increases in the affordable housing cost for Low to Moderate Income homebuyers, in mid-2005, the former RDA approved significant changes to the Program, including an increase in the maximum amount of the second mortgage up to \$240,000. The mortgage terms were also modified to reflect the then current California Redevelopment Law requirement that 45-year covenants be imposed on ownership units receiving Housing Fund assistance. The new Program provided 45-year second mortgages with a 30-year deferral and then for years 31-45 amortized monthly payments will be due by the home owner to Costa Mesa. As of this date, 15 new loans remain outstanding according to Amerinational, the company that administers the Program with staff. One property was foreclosed by the first lien lender, and for that loan there are continued legal issues relating to alleged defective notices and proceeds payable to Costa Mesa after payoff of the first mortgage, which matter Jones & Mayer is handling.

Based on the former RDA priorities, the economic downturn, and limited funding the last Program loan was provided in 2009. Then, the enactment of AB x1 26 on June 27, 2011 first suspended, and then terminated, the former RDA’s authority to provide any more loans. Under the “Dissolution Laws” (together, AB x1 26 enacted June 27, 2011, the California Supreme Court’s decision in *CRA v. Matosantos* issued December 29, 2011, and AB 1484 enacted June 27, 2012), all of the “housing assets” of the former RDA and the affordable housing functions and duties of the former RDA have transferred to the CMHA, as “housing successor”, by operation of law and approval from the State Department of Finance (“DOF”). These housing assets include *all* of the outstanding Program loans both under the original and new Program. Administration, compliance monitoring, and enforcement of the outstanding loans continues and must be managed by staff with the assistance of legal counsel and the City’s housing consultant, Keyser Marston Associates. While the CMHA, as a California housing authority and the housing successor, is authorized to make new loans, there is very limited funding for more loans under the Program.

The economic downturn and the Dissolution Laws have triggered many queries about the Program from home owners, real estate brokers, lenders, short-sale agents; thus, policy and legal issues have arisen relating to the ongoing administration of the outstanding loans, including specific requests that the Program requirements be waived or amended. The Guidelines, including policies for original loans, another for new loans, and a Program manual (attached), expressly and strictly prohibit certain activities and establish specific standards and conditions precedent relating to resales, refinancings, transfers, rental of the home, amortized payments on the original Program loans, etc.

Five main issues (explained below) have arisen repeatedly during administration of the Program loans since the Dissolution Laws were enacted in June 2011. Of the five issues, only one, refinancing, is recommended by staff to be modified by the City Council and CMHA, which will require changes to the existing policies, criteria, and conditions precedent for staff to authorize a refinancing and re-subordination of second mortgage assistance loans under the Program on a case-by-case basis.

The purpose of this report is for staff to present and explain the main issues and to request authorization and direction to modify the Program Guidelines for refinancing of first mortgages and the criteria under which staff, in consultation with legal counsel and the housing consultant, will be authorized to review and approve re-subordination going forward while Program loans remain outstanding.

ANALYSIS:

Summary of Issues

The primary issues that have been raised by home owners, real estate brokers, lenders, short-sale agents, and others (together, "stakeholders") include the following:

1. **Refinancings:** Stakeholders want the criteria loosened for refinancing of an existing first mortgage and thereby re-subordination of the Program second mortgage loan so that more refinancings of existing first mortgages can occur without acceleration and payoff of the Program loan. More details about the existing criteria and requested modification to one criterion are explained later in this report.
2. **Short Sales:** Under the Program, short sales are "strictly prohibited". Stakeholders want the Program to be modified to allow for short sales, but staff does not recommend this change.

A "short sale" is when the proceeds from selling a property will fall 'short' of the balance of debts secured by liens against the property. Here, generally this would be when the first mortgage *plus* the Program second mortgage total less than the value of the home. In other words, the home owner wants to sell the home for less than the outstanding liens and make repayment on the loans in amount(s) less than the liens' full amounts. For short sales each and all lien holders must agree to the short sale, release their lien on the real estate, and some or all lien holders must accept less than the amount owed on the debt. For Costa Mesa, to date all requests have been denied since the Program currently prohibits short sales, but in each instance if a short sale had proceeded significantly less than, or none of, the loan amount owed would have been repaid.

The unpaid balance owed to a creditor is known as a deficiency, but in California, legislation precludes recouping any deficiencies after a short sale is approved for a single-family home; so, if short sales were allowed then if and when a short sale were to be approved, no deficiencies are permitted after the short sale. (SB 931, SB 458 - Calif. Code of Civil Procedure §580e).

Under the Program, especially for the new loans, the value of the home is often far less than the total of the outstanding liens, i.e., the first mortgage lien *plus* the Program second

lien total more than the fair market value (fmv), thus the property is, using parlance, "underwater", and the loan(s) are impaired.

An example of a fact pattern for a new Program loan: Home purchased in 2007 for \$500,000; the down payment was \$25,000, the first mortgage was \$235,000 and the Program second mortgage from the former RDA was \$240,000. Current fmV of home is \$350,000, so the first lien holder bank/lender would be paid in full, but Costa Mesa would only receive about \$115,000 or less of the \$240,000 due from the home owner/borrower.

As noted, the Program "strictly" prohibits short sales, so each requesting stakeholder has been so informed, but that does not stop the continued inquires and requests. Staff has been presented multiple sets of facts requesting short sales but none of them present reasonable facts that seem to justify the CMHA, as housing successor and lien holder of the Program second mortgage, changing the Program to allow significant losses on outstanding debts.

The Council should be aware that it is possible that a home owner may "walk" from the home and allow the first mortgage to be foreclosed. In that case, the repayment of the Program loan would be junior and limited to the proceeds available after the senior mortgage plus all foreclosure costs are satisfied. Noted too is that staff has been contacted by stakeholders seeking strategic foreclosures that may benefit the first lien holder but generally not other lienholders like Costa Mesa. Staff does not recommend changing the Program to allow for short sales.

3. **Renting out the Home.** Owner-occupancy was one of the primary requirements to participate in the Program for both original and new loans. While the loan is outstanding, every home owner is required to own and occupy the home continuously as their principal, permanent residence. Program participants are required to submit an annual affidavit of occupancy and continuing Program compliance. The Program loan agreement and CCRs signed by each home buyer for each loan and the Guidelines expressly and clearly state that renting out the home, or any part, is strictly prohibited and that renting will trigger a default and acceleration of the loan.

There is a limited exception to this prohibition – a home owner can make a written request to Costa Mesa for approval to rent out the home for a period up to six-months for hardship reasons, such as a new job, transfer, illness, etc.

Staff has been asked to allow long-term rentals of homes but few present reasonable facts that would justify modifying the existing policy that prohibits renting out any part of the home. During the impairment analysis of all Program loans conducted by KMA during the period leading up to dissolution, KMA found several owners had rented out their home without request to or approval from Costa Mesa. Staff has been working to notify the owners in violation and cause compliance with the CCRs and Program requirements. Staff does not recommend changing the owner-occupancy requirements of the Program.

4. **Requests for Extensions or Forgiveness of Loan Payments.** For original Program loans of up to \$40,000 the term of the loan is 30 years and there was a full deferral on payment for the first 10 years of the loan, then for Years 11 to 30 amortized monthly payment of the loan are due and payable. Since the loans issued between 1997 to 2003

have passed the 10-year period, many Participants are timely making their monthly payments on their Program loan. However, several owners have requested that Costa Mesa (i) fully forgive the Program loan, (ii) forgive past due payments, (iii) forgive payments due over the next few years, (iv) defer the payments altogether to a much later date, (v) change the amount of the monthly payment, or (vi) otherwise restructure the loan terms.

Staff has reviewed the requests, but none seem to present reasonable or justifiable reasons to modify or otherwise restructure these original Program loans of \$40,000 or less. Many of these homes increased in value significantly after purchase (1997 to 2005) so there is often equity in the home. Also, generally the first mortgage debt service payments have been lower and the additional monthly payment for the Program second loan presents manageable total debt and monthly housing cost. Further, restructuring debt would be time-consuming, costly, and involve the cooperation of the first mortgage lien holder, which in many instances is not the original lender due to spinoffs of loans by primary lenders.

This issue does not exist for the new Program loans because amortized payments on those loans are deferred for 30 years, so since the new loans did not commence until late 2005 this issue will not arise until 2035 or later. Staff does not recommend modifying the Program relating to the structure of the original loans.

5. Requirement for 30-Year Fixed Rate First Mortgage Loans. While a detailed discussion about refinancing is included in the next section, one Program policy related to refinancing of the first mortgage loan that staff does *not* recommend be changed is the requirement that all first mortgages be (i) with an institutional lender, (ii) have a 30-year term, (iii) a fixed rate of interest (no variable or teaser rates), and (iv) be an amortized loan with level monthly payments over the 30-year term.

Some stakeholders have asked for (a) 15-years or less for the term of first mortgage, (b) variable interest rate, (c) teaser rate with deferred or low rate in early years then escalation or balloon payment in later years, (d) negative amortization, (e) reverse mortgages, (e) other loan structures, all of which have known risks.

Reasonable and conservative underwriting should prevail for refinancings. For example, if Costa Mesa were to allow refinancing of a first mortgage to a 15-year term, then the monthly debt service payment on the first mortgage would be much higher than the payment on a 30-year loan and would burden the home owner. None of these non-traditional first mortgages are recommended; and, staff recommends the Program policy remain the same and continue to require 30-year, fixed rate, fully amortized first mortgage loans.

Discussion of Modifying Refinancing Criteria and Policies

The existing Guidelines require the following criteria to be satisfied for all refinancings of first mortgages and requests for re-subordination of Costa Mesa's second mortgage:

1. No increase in principal amount of first lien mortgage. Increased indebtedness is not allowed, except by the amount of reasonable closing costs (currently set at a

maximum of 4%) as determined by the Program Administrator. No cash can be paid directly to the home owner on any refinancing.

2. Costa Mesa will not allow re-subordination if the appraised value of the subject property is less than sum of the existing liens, encumbrances and interest, including property tax liability. In other words, the sum of the first mortgage plus the Program second cannot exceed the fmv of the home at time of refinancing.

This criterion 2. is the main issue objected to by stakeholders when asking for approval of a refinancing under the current Program, and staff recommends modification modified as explained herein.

3. The first trust deed for the new loan must be a 30-year, fixed-rate, amortized level payment mortgage. Costa Mesa will not subordinate to a first trust deed with a variable interest rate, any negative amortization associated with it, or a different amortization period.

4. Costa Mesa will not re-subordinate below second lien position under any circumstances. The Subordination Agreement must contain language to this effect or Costa Mesa will insert this language prior to authorizing execution of any new Subordination Agreement for a refinancing.

5. Prior to the execution of any Subordination Agreement, Costa Mesa will require review of the following: (i) the settlement statement, (ii) appraisal and title policy (preliminary report is acceptable) used for the refinancing, (iii) disclosure statement, (iv) truth-in-lending disclosure statement, and (v) form of and terms of subordination with rights of notice and cure.

6. A copy of the lender's policy of title insurance naming Costa Mesa as insured or escrow instructions stating that the title insurance will be issued concurrently with the recordation of the first trust deed for the new loan and the new Subordination Agreement.

When staff is asked about the criteria for refinancing and the terms by which Costa Mesa will resubordinate the Program loan, the above criteria are provided to the stakeholder(s) with a statement that "any deviation or change from above conditions will result in Costa Mesa calling due the current Program loan.

Over the past months there have been numerous requests from stakeholders to do a refinancing of the existing first mortgage, but the second criterion – *that the appraised value of the home cannot be less than the sum of the existing liens* - cannot be satisfied. These facts have existed for many of the new Program loans due to the downturn in the economy over the past five years. With interest rates being so low, some owners with Program loans have not qualified for refinancing because the value of their home is less than the sum of their first and second mortgages. While there are good signs that the economy is getting stronger, in particular that home values for single-family homes in the "first time buyer" category have increased materially in the past few months (more than 16% in Orange County as reported in the media recently), staff has had to disapprove several requests for refinancing due to failure to satisfy criterion 2. above. In each instance refinancing would have provided the home owner a lower monthly payment and sometimes a lower principal amount of the first mortgage if refinancing and resubordination were to occur.

With the lower interest rates, often all of the other criteria can be met by the requesting home owner that wants to refinance; in particular, the monthly payment on the first mortgage would decrease if the refinancing were allowed. As long as the home owner is not allowed to obtain a new first mortgage with a principal balance that is greater than the outstanding balance at the time of the refinancing, there are strong arguments that support changing the Program Guidelines to allow refinancing even if criterion 2. cannot be met. Specifically, a lower monthly payment on the first mortgage may well ensure that the home owner will make the first mortgage payment timely and in full and not default on the property or expose the home to foreclosure.

The key constraint to this policy is that the total loan-to-value ratio of the first trust deed loan and the Program loan could potentially be well beyond industry standards and underwriting for institutional lenders. As a result, it is common for the proposed first mortgage lender to request that the junior lender to reduce the principal balance of the Program loan. This modification is not recommended, as no home buyer with a fully amortizing 30-year mortgage should be in a position where they are required to refinance. If the policy were to be changed then staff recommends that this criterion would be modified to be evaluated on a case-by-case basis with the review and input of staff, the housing consultant and legal counsel. However, staff recommends that in no case should Costa Mesa agree to reduce the outstanding balance of the Program loan as part of a refinancing of the first mortgage.

The approval of the proposed change to criterion 2. would allow qualified home owners to refinance their loans, increasing the potential for them to retain their homes, resulting in continued owner-occupancy of the home, which is consistent with Costa Mesa's goals for the Program.

ALTERNATIVES CONSIDERED:

The Council and CMHA could choose to not modify any of the Program Guidelines. This may impact the ability of some existing home owners to refinance the first mortgage on their home; the home owner would be required to continue to abide by the policies that were in place when their loan was issued.

Alternatively, the Council and CMHA could direct, in addition to modifying criterion 2. for refinancings, that the other Program policies such as the rental and short sale rules be revised. For example, the Council could direct that the hardship provision for renting out a home be lengthened or that short sale requests be considered on a case-by-case basis.

FISCAL REVIEW:

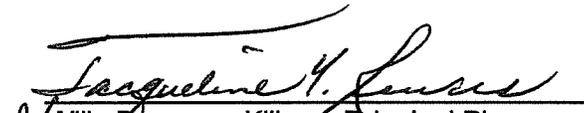
Legal and consulting fees and costs have been incurred to present this matter to the Council and CMHA and additional fees will be incurred to modify the existing Program policies and procedures and documents related to refinancing and re-subordination. No Housing Fund monies exist to pay for such consulting and legal costs, however a limited amount of monies are on account with the CMHA for administration (source is annual ground lease payment on Costa Mesa Family Village). Fees and costs too will continue to be incurred for administration, compliance monitoring and enforcement of the outstanding Program loans.

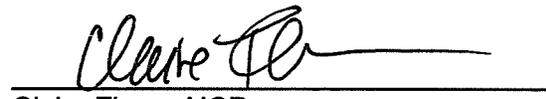
LEGAL REVIEW:

Special counsel Mrs. Celeste Brady prepared this agenda report with staff and KMA's review and input. Mrs. Brady will be present at the meeting and will answer the Council/CMHA's questions about this agenda report and the existing Program.

CONCLUSION

Staff recommends that the Program Guidelines, in particular criterion 2., be modified by the CEO/Executive Director, in consultation with legal counsel and the housing consultant, to allow for, on a case by case basis and as determined reasonable based on underwriting and industry standards in effect at the time of request, refinancing of first mortgages and the resubordination of Costa Mesa second mortgages, so long as the other criteria and requirements under the existing Guidelines for refinancing are satisfied, even though the appraised value of the subject property is less than the sum of the first and second liens, so long as the principal balance of the new first mortgage does not exceed the outstanding balance of the existing first mortgage.


Jacqueline Y. Louises
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Development Services


Claire Flynn, AICP
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- Celeste Brady, Special Counsel, Stradling Yocca Carlson & Rauth
- Kathleen Head, Housing Consultant, Keyser Marston Associates

Attachments:

1. Joint Resolution of City Council and CMHA
2. Original Program Policies and Procedures
3. New Program Policies and Procedures
4. Homebuyer Assistance Program Manual

ATTACHMENT 1

Joint Resolution of City Council and CMHA

[attached]

RESOLUTION NO. 13-_____

A JOINT RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COSTA MESA AND THE COSTA MESA HOUSING AUTHORITY DIRECTING THE CITY'S CEO AND THE CMHA EXECUTIVE DIRECTOR TO MODIFY A CERTAIN POLICY OF THE COSTA MESA HOMEBUYER ASSISTANCE PROGRAM POLICIES, PROCEDURES AND GUIDELINES RELATED TO REFINANCING OF FIRST MORTGAGES AND RESUBORDINATION OF COSTA MESA PROGRAM SECOND MORTGAGES.

THE CITY COUNCIL OF THE CITY OF COSTA MESA AND THE COSTA MESA HOUSING AUTHORITY DO HEREBY RESOLVE AS FOLLOWS:

WHEREAS, the City of Costa Mesa and the former Costa Mesa Redevelopment Agency ("former RDA") previously established, funded, and administered the Costa Mesa Homebuyer Assistance Program, also known as the First Time Home Buyers (FTHB); and

WHEREAS, the former RDA is now a dissolved community redevelopment agency and the Costa Mesa Housing Authority ("CMHA") acts as the "housing successor" all pursuant to Assembly Bill x1 26 enacted June 27, 2011, the California Supreme Court's decision in *CRA v. Matosantos* issued December 29, 2011, and Assembly Bill 1484 enacted June 27, 2012 (together, "Dissolution Laws"); and

WHEREAS, the FTHB program includes both the "original" program that operated between 1997 to mid-2005 and the "new" or current program that operated between mid-2005 until the initial Dissolution Laws were enacted (together, "Program") and for each the original and new programs there are in place policies, procedures and guidelines ("Guidelines") for implementation of the Program, including without limitation, specific criteria related to the proposed refinancing of Program participants' first mortgages and the basis, conditions precedent, and requirements to allow resubordination of Costa Mesa's outstanding second mortgage; and

WHEREAS, the City and CMHA desire to modify the Guidelines of the Program to allow qualifying Participants/home owners to refinance their first mortgages and make a request for resubordination of Costa Mesa's second mortgage subject to specific requirements and underwriting criteria; and

WHEREAS, allowing qualifying home owners under the Program to refinance and request resubordination of Costa Mesa's second mortgage could encourage homeowners with properties with currently disqualifying loan to value ratios to refinance the first mortgage on their homes subject to Program requirements and allow home owners to continue to own and occupy their homes; and

WHEREAS, certain issues and requests have been raised by Program participants/home owners, real estate brokers, lenders, short sale agents, and others (together, "stakeholders"), in particular issues about criterion 2. of the multiple conditions

precedent and requirements now in place relating to refinancings of first lien mortgages and resubordination of the Program second mortgages; and

WHEREAS, the issues and proposed changes to the Program, in particular the change to criterion 2. that conditions resubordination and requires that the sum of the first mortgage plus the second mortgage not exceed the fair market value of the property and thereby sets a loan to value ratio, have been presented to, reviewed, and considered by the City Council and CMHA and both boards desire to provide direction to the City's CEO and the CMHA Executive Director to modify criterion 2.; and

WHEREAS, City's CEO and the CMHA Executive Director is directed to modify the Guidelines relating to the criteria and requirements for proposed refinancings of first mortgages and resubordination of second mortgages while Program loans remain outstanding, which are to be reviewed on a case-by-case basis with review and input from legal counsel and the housing consultant, as set forth in and as recommended in the staff report presented with this agenda item; and

WHEREAS, the City Council and CMHA have considered all public comments and testimony, both oral and written, that have been received about this agenda item.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COSTA MESA AND THE COSTA MESA HOUSING AUTHORITY AS FOLLOWS:

Section 1. The foregoing Recitals are incorporated into this Resolution by this reference and constitute a material part of this Resolution.

Section 2. The Guidelines for the original and new Program are directed to be modified by the CEO and Executive Director in consultation with legal counsel and the housing consultant to amend existing criterion 2. to allow for, on a case-by-case basis and as determined reasonable based on underwriting and industry standards in effect at the time of request, refinancing of a Participant's first mortgage and the resubordination of Costa Mesa's second mortgage, so long as the other criteria and requirements under the existing Guidelines for refinancing are satisfied, all to support continued owner-occupancy and homeownership by Program participants in the City of Costa Mesa. In this regard, legal counsel shall prepare the form of subordination agreement to be used in refinancings that meet Program requirements, as modified pursuant hereto.

Section 3. The City Clerk and CMHA Secretary shall certify to the adoption of this resolution.

PASSED AND ADOPTED this 11th day of June, 2013.

James M. Righeimer, Mayor and CMHA Chair

ATTEST:

Brenda Green, City Clerk and
CMHA Secretary

APPROVED AS TO FORM:

Celeste Stahl Brady, Esq.
Special Counsel to City and CMHA

STATE OF CALIFORNIA)
COUNTY OF ORANGE) ss
CITY OF COSTA MESA)

I, BRENDA GREEN, City Clerk of the City of Costa Mesa and Secretary of the Costa Mesa Housing Authority, DO HEREBY CERTIFY that the above and foregoing is the original of Resolution No. 13-___ and was duly passed and adopted by the City Council of the City of Costa Mesa at a special meeting and by the Costa Mesa Housing Authority at a regular meeting held on the 11th day of June, 2013, by the following roll call vote, to wit:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

IN WITNESS WHEREOF, I have hereby set my hand and affixed the seal of the City of Costa Mesa and the Costa Mesa Housing Authority this 11th day of June, 2013.

BRENDA GREEN, CITY CLERK and CMHA Secretary

ATTACHMENT 2

Original Program Policies and Procedures

[attached]

**REDEVELOPMENT AGENCY FOR THE CITY OF COSTA MESA
HOME BUYER ASSISTANCE PROGRAM
GUIDELINES**

I. INTRODUCTION

The Costa Mesa Home Buyer Assistance Program (the "Program") has been established to encourage home ownership in the City of Costa Mesa by providing down payment assistance (the "Agency Loan") to eligible first time home buyers purchasing qualifying properties. The Program is designed to assist low to moderate income persons and families who, based on institutional underwriting criteria, are unable to qualify for and/or afford the necessary down payment to purchase a home without Agency financial assistance. Qualifying properties must be single family homes, condominiums or townhomes located within the City of Costa Mesa and purchased for owner occupancy at affordable housing cost.

The Program is funded by the Redevelopment Agency for the City of Costa Mesa's Low and Moderate Income Housing Fund established by the Agency to increase, improve and preserve the community's supply of affordable housing. Agency Loan funds are combined with the funds of participating low to moderate income home buyers to enable such households to qualify for first mortgage financing and achieve affordable home ownership. The Program is implemented by the Agency's Program Administrator in cooperation with participating private institutional lender(s).

The basic structure of Program assistance is as follows:

The First Trust Deed Loan. Participating home buyers must qualify for a fixed-rate level-payment first mortgage loan with a private institutional lender approved by the Agency.

The Agency Loan. The Agency Loan will be provided pursuant to the terms and conditions of the Agency's standard form Loan Agreement and shall be evidenced by a promissory note and secured by a second deed of trust. During the first ten (10) years of the Agency Loan, no interest shall accrue and no payments will be due. Commencing in year eleven (11) through to the thirtieth (30th) anniversary of the date of the Agency Loan, interest will accrue at the rate of five percent (5%) per annum and fully amortized monthly payments of principal and interest will be due. The entire Agency Loan amount will be due and payable upon sale, transfer or default.

Affordable Housing Resale Requirements. The Agency desires that properties purchased with Program assistance remain part of the community's affordable housing stock available to successive low to moderate income home buyers at an affordable housing cost. If, during the first ten (10) years of the Agency Loan, properties are sold in excess of affordable housing cost to persons or families whose income exceeds one hundred twenty percent (120%) of Orange County area median income and/or the Agency Loan is accelerated because of default, the

participant shall pay to the Agency (in addition to principal repayment) a percentage share of the appreciation in the value of the property based upon the proportionate share of the Agency Loan to the original purchase price.

II. ELIGIBILITY CRITERIA

A. ELIGIBLE PARTICIPANTS

1. Income Limits

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

2. First Time Home Buyer/Displaced Household/Displaced Homemaker

Income eligible households who have not owned a present ownership interest in real property during the last three (3) years may participate in the Program. In addition, Displaced Households and Displaced Homemakers who meet the income eligibility criteria may participate in the Program without regard to previous home ownership.

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

3. Liquid Assets

Household assets cannot exceed the greater of (i) the combined total of participant's downpayment and estimated closing costs plus six (6) months housing costs plus \$5,000, or (ii) the combined total of participant's downpayment and estimated closing costs plus \$10,000. Household assets shall be calculated in accordance with Section 6914(a) of Title 25 of the California Code of Regulations as set forth in Exhibit "B" attached hereto.

4. Credit Worthiness

Household must have sufficient credit worthiness to qualify for first trust deed financing as determined by the participating institutional lender and must have a minimum credit rating of "fair" as defined by the Program Administrator.

5. Legal Residency

Program participants must be legally residing in the United States.

6. General Eligibility

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

7. Non-Participation in City Program

Participants receiving an Agency Loan under the Program are ineligible to participate in the City of Costa Mesa Police Officer Home Buyer Assistance Program.

B. ELIGIBLE PROPERTY

1. Type of Residence

Program assistance will be available to purchase at an affordable housing cost single-family detached homes, condominiums and town homes. Mobile homes not affixed to a permanent foundation, recreational vehicles, campers and similar vehicles are not considered residential property and are ineligible for Program assistance.

2. Location

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

3. Property Condition

All properties must be inspected by an independent third party inspector at buyer's or seller's expense. The condition of the property as reported by such inspector must satisfy the standards of the institutional lender funding the first trust deed loan. In addition, any serious code violations or other health and safety deficiencies reported by such inspector must be corrected as a condition precedent to funding the Agency Loan.

4. Purchase Price

The maximum purchase price for eligible properties shall be adjusted periodically to correspond to the Fannie Mae conforming mortgage limit. (As of January 2004, the maximum purchase price is \$515,000 but this subject to change.) In addition, the purchase price cannot exceed affordable housing cost.

5. Leased Land

The Agency will only allow loan funds to be used for homes on leased land if the term of the lease is a minimum of one and a half (1.5) times longer than the term of the first mortgage.

III. AFFORDABLE HOUSING COST

California Redevelopment Law establishes the maximum allowable amount qualified participants may pay for housing related expenses (including principal, interest, taxes, insurance, homeowner association dues, and a reasonable utility allowance). Affordable housing cost is generally defined as a percentage of area median income for each of three eligible income categories.

Very Low Income Household. Maximum housing costs cannot exceed thirty percent (30%) times fifty percent (50%) of the area median income adjusted for family size appropriate for the unit.

Lower Income Household. Maximum housing costs cannot exceed thirty percent (30%) times seventy percent (70%) of the area median income adjusted for family size appropriate for the unit.

Moderate Income Household. Minimum housing cost cannot be less than twenty-eight (28%) of the gross income of the household nor exceed the product of thirty-five percent (35%) times one hundred ten percent (110%) of area median income adjusted for family size appropriate for the unit.

"Adjusted for family size appropriate to the unit" means the following:

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

IV. COVENANTS AND RESTRICTIONS

Agency Loans are made subject to certain covenants, conditions and restrictions, including maintenance, criminal activity and affordability covenants that will be recorded against properties purchased with Program funds.

A. Maintenance/Criminal Activity Covenants

Maintenance/criminal activity covenants require the home buyer to maintain the property and the improvements in good physical condition and free from gang or drug-related activities or from other felonious criminal activity or public nuisance. These covenants run for the term of the Agency Loan.

B. Occupancy Covenant

Agency Loans require Program participants to own and occupy the property as their principal residence. Program participants shall be required to submit an annual affidavit of occupancy.

C. Affordability/Resale Restriction and Appreciation Share

During the first ten years of the Agency Loan, participants may sell the property only to low or moderate income home buyers at an affordable housing cost. Participants may "buy-out" of such covenants and rent the property without restriction or sell the property to a buyer who does not qualify as a low or moderate income household and/or at a purchase price that exceeds affordable housing cost, so long as the participant pays a percentage share of the appreciation in the property (if any) to the Redevelopment Agency. The percentage share of the appreciation in the value of the property shall be determined by the proportionate share of the Agency Loan to the original purchase price in accordance with the following formula: $(\text{Agency Loan amount}/\text{original purchase price}) \times (\text{sales price} - \text{purchase price})$.

For example: if the amount of the Agency Loan equals \$30,000 and the Program participant paid \$200,000 for the home, then upon early repayment of the Agency Loan, the Redevelopment Agency shall receive a share of the appreciation equal to fifteen percent $(15\%) \times (\text{Sales Price} \text{ minus } \$200,000)$.

No share in appreciation shall be due and payable in the event of sale to an income eligible person or family at affordable housing cost.

V. FINANCING

A. Minimum Downpayment Contribution By Participant

All participating households must contribute a down payment of not less than three percent (3%) of the purchase price of the property, plus closing costs. The household's minimum three percent (3%) downpayment shall not be derived from the proceeds of a loan or a gift. The availability of funds must be evidenced by a checking or savings account statement.

B. First Deed of Trust

Program participants must obtain first trust deed financing from a private lending institution approved by the Agency. The first mortgage must be a 30-year fixed-rate, level payment mortgage. The lender will determine the amount and terms of the first mortgage

based on its own underwriting criteria. The financial criteria used by the institutional lender may be different and possibly more stringent than that used by the Agency.

C. Second Deed of Trust (Agency Loan)

1. **Maximum Loan Amount.** The Agency Loan shall not exceed the lesser of \$40,000 or that amount which when combined with the participating household's down payment equals 20% of the purchase price. In order to allow households meeting all other eligibility criteria to participate in the Program, the Program Administrator, with approval of the Agency, may permit the Agency Loan to finance all or a portion of the nonrecurring closing costs, subject to the approval by the first trust deed lender and so long as the Agency's maximum loan amount does not exceed \$40,000.

2. **Interest Rate.** Except in the event of default, the Agency Loan shall accrue zero interest during the initial ten (10)-year deferral period with interest at the rate of five percent (5%) per year commencing in year 11.

3. **Repayment.** Except in the event of default, repayment of the Agency Loan is fully deferred for the ten (10) year affordability period. Monthly amortized payments based on a twenty (20)-year amortization schedule shall commence in the eleventh (11th) year and be fully repaid on the thirtieth (30th) anniversary of the Agency Loan. Notwithstanding the foregoing, the entire principal balance and all interest accrued thereon, if any, shall be immediately due and payable upon sale or transfer of the property or default by the participant of the terms and conditions of the Agency Loan. The Agency Loan is not assumable.

4. **Default.** Failure to occupy the property as the participant's principal residence and/or defaults in payments on the first mortgage, property taxes and/or hazard insurance constitute a default of the Agency Loan and acceleration thereof and may result in foreclosure.

Exception: Participants may request temporary waiver of the principal residence requirement in situations involving extreme hardship as determined by the Program Administrator and approved by the Agency. Extreme hardship may consist of a transfer of career location, loss of job or unexpected expenses which force a move to a less expensive arrangement or other events of this nature. However, rental of the property shall be prohibited without the express written consent of the Program Administrator. If allowed, rental shall be permitted only to low or moderate income persons at affordable rent depending upon the income category of the participant, the participant's monthly housing cost and applicable market rents.

5. **Refinancing, Resale and Subordination.** Refinancing of the first trust deed will be permitted only upon written approval by the Program Administrator and the Agency and only when the outstanding indebtedness is not increased (except by the amount of reasonable closing costs as determined by the Program Administrator). In all other cases, refinancing shall be allowed only where the

Program participant will repay the Agency Loan in full together with interest thereon, if any, plus an appreciation share, if applicable, as specified in the Agency Loan documents. An appraisal by an Agency approved appraiser must be conducted, at the owner's expense, to establish the market rate value of the property. This will be used in determining the amount of appreciation share to be paid to the Agency.

Properties acquired with Program funds shall not be sold for less than the sum of the existing liens, encumbrances, and interest, including property tax liability, without the express written consent of the Agency.

The Agency Loan will be subordinate to the private institutional lender's first mortgage. The Agency will not subordinate to a first deed of trust that has a variable interest rate or any negative amortization associated with it. The Redevelopment Agency will not subordinate below second position.

VI. VIOLATIONS/LIQUIDATED DAMAGES

A special provision for liquidated damages shall be invoked if the Program participant willfully and knowingly makes a false statement or representation, or knowingly fails to disclose a material fact for the purpose of qualifying for the Program, or, in completing certifications, affidavits, or recertification documents or, fails to occupy the property and immediately seek to cure.

VII. PROGRAM IMPLEMENTATION

A. Application/Underwriting /Funding

The Program Administrator will review all applications submitted by the established deadline and will notify all persons in writing of their eligibility or ineligibility. During the first year of Program implementation (and in subsequent years as determined by the Agency) eligible persons will be invited to participate in a lottery to determine the priority of processing and Agency Loan funding. In the absence of a lottery, the Agency will process applications and fund Agency Loans on a first-come first-served basis to interested persons who have attended a home buyer seminar.

Each application will reflect the time and date received. Only complete applications will be evaluated. All information and data on the application shall be verified. The application, together with other materials relating to eligibility will be maintained in an active file for each applicant. Applicants shall be required to provide federal and state income tax returns for the previous three years and verification of current gross income to document eligibility for the Program.

If a participating lender approves the first trust deed loan and the applicant is able to purchase an eligible property at an affordable housing cost, the Agency will conduct a final review of the Agency Loan package to ensure compliance with Program requirements.

Upon final approval by the Agency, the Agency will prepare Agency Loan documents and submit Program funds into escrow.

Applicant(s) should not make offers on homes contingent on Program assistance until they receive written notification of eligibility from the Program Administrator. Final approval to participate in the Program is subject to the satisfaction of all required conditions. A minimum 30-day escrow is required for all Agency Loans.

EXHIBIT A

2004 INCOME LIMITS¹

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

Number Of Persons In Family

Standard	1	2	3	4	5	6	7	8
Very Low	\$26450	\$30250	\$34000	\$37800	\$40800	\$43850	\$46850	\$49900
Lower	\$40250	\$46000	\$51750	\$57500	\$62100	\$66700	\$71300	\$75900
Median	\$52900	\$60500	\$68050	\$75600	\$81650	\$87700	\$93750	\$99800
Moderate Income	\$63500	\$72550	\$81650	\$90700	\$97950	\$105200	\$112450	\$119700

INCOME LIMITS ARE SUBJECT TO CHANGE.

¹ Income limits effective March 2004, adjusted annually.

EXHIBIT B

DETERMINATION OF GROSS HOUSEHOLD INCOME

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

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

B. The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities;

- (7) Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;
- (8) All regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family, spouse, or other person whose dependents are residing in the unit subject to 2.e., below;

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

- (1) cash savings;
 - (2) marketable securities, stocks, bonds, and other forms of capital investment, including tax exempt securities other than Individual Retirement or KEOGH plans;
 - (3) inheritance, lump-sum insurance payments, already received;
 - (4) settlements for personal or property damage already received;
 - (5) equity in real property other than household's full-time residence; and
 - (6) other personal property which is readily convertible into cash, exclusive of the value of necessary items such as ordinary household effects, including furniture, fixtures, and automobiles used for personal use.
- (b) The following shall not be considered as income:
- (1) casual, sporadic, or irregular gifts;
 - (2) amounts that are specifically for, or in reimbursement of, the cost of medical expenses;
 - (3) lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses;
 - (4) amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to veterans for use in meeting the costs of tuition, fees, books, and equipment; any amounts of such scholarships, or payments to veterans not used for the above purposes of which are available for subsistence are to be included in income;

- (5) special pay to a serviceman head of household away from home and exposed to hostile fire;
- (6) relocation payments made pursuant to federal, state, or local relocation law;
- (7) foster child care payments;
- (8) the value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is in excess of the amount actually charged the eligible household;
- (9) payments received pursuant to participation in the following volunteer programs under the ACTION Agency:
 - A. National Volunteer Antipoverty Programs which include VISTA, Service Learning Programs and Special Volunteer Programs.
 - B. National Older American Volunteer Programs for persons aged 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Program to Assist Small Business Experience, Service Corps of Retired Executive (SCORE) and Active Corps of Executives (ACE).

ATTACHMENT 3

New Program Policies and Procedures

[attached]

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

I. INTRODUCTION

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

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

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

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

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

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

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

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

2. **Agency Loan.** The Agency Loan will be provided pursuant to the terms and conditions of the Agency's standard form Loan Agreement and shall be evidenced by a Promissory Note and secured by a Second Deed of Trust, including other Agency Loan Documents implementing the Program. The principal amount disbursed under the Promissory Note for Participant's purchase of the Property (up to \$240,000) will accrue zero (0%) interest.

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

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

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

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

3. *Equity Sharing Payment.* In addition to the principal amount (up to \$240,000) disbursed under the Promissory Note for Participant's purchase of the Property, which shall be due and payable as described in the above paragraph, each Participant shall pay to the Agency an Equity Sharing Payment, if any, which amount is equivalent to a percentage share of the appreciation in the value of the Property based upon the proportionate share of the Agency Loan to the original purchase price for the Property.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17. ***“Lender”*** means the private lender approved by the Program Administrator and that provides the First Trust Deed Loan. Each Lender shall be a federally regulated and insured financial lending institution or a licensed mortgage broker with a current and valid license from the California Department of Real Estate that meets all of the requirements established by the Agency to participate as a Lender in the Program and has entered into a Lender Participation Agreement acceptable to the Agency.

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

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

extremely low-income households, as defined in Health & Safety Code Section 50106.

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

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

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

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

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

a. *Types of Ownership Interests.* The Low to Moderate Income Household that becomes a Participant in the Program and receives an Agency Loan shall own and occupy the Property. Title to the Property shall vest with Participant upon concurrent closing of the First Trust Deed Loan and Agency Loan and Participant shall hold title in one of the following forms a. or b., and not in the form of c. below:

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

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

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

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

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

(ii) Leased Land. Fee simple interest in the improvements (dwelling) and leasehold interest under a long term ground lease for the land upon which the improvements are constructed and exist, i.e., as a lessee of a long-term ground lease. Eligible Applicants who propose to buy a Property with fee ownership of improvements and situated on leased land (versus fee simple ownership of land and improvements) are not disqualified from application, and such application may be considered, so long as the remaining term of the ground lease for the leased land upon which the improvements (dwelling) are situated is for a term that is not less than one and one-half (1½) times longer than the term of the First Trust Deed mortgage.

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

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

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

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

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

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

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

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

32. ***“Purchase Price”*** means the *original* purchase price paid by the Participant to the Seller for Seller’s interest in the Property, exclusive of escrow fees, title insurance costs, broker’s commission, loan fees or any other closing or transaction costs.

33. ***“Recordation Date”*** means the date of recording in the Official Records of the County of Orange, California of the Deed of Trust securing the Agency Loan.

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

35. ***“Sales Price”*** means the price to be paid by the Buyer of the Property to Participant for Participant’s interest in the Property, exclusive of reasonable escrow fees, title insurance costs, broker’s commissions, loan fees or any other closing or transaction costs. In the event the Agency Loan becomes due and payable due to an event other than resale of the Property to a Buyer (for example due to a non-approved

refinancing or default under the Agency Loan), then the Sales Price shall be the appraised value of the Property as of such date of acceleration and due date of the Agency Loan, as determined by a qualified independent appraiser paid for by the Participant. The Sales Price (or appraised value of the Property) is used in the formula for calculation of the amount of the Equity Sharing Payment due during the Term of the Agency Loan.

36. “*Seller*” means the person or entity from which the Participant originally purchased the Property.

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

II. ELIGIBILITY CRITERIA

A. Eligible Households and Eligible Participants

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

2. ***Eligible Homebuyer Status.*** Eligible Households may apply to participate in the Program and shall include Low to Moderate Income households who have not owned a present ownership interest in real property during the last three (3) years. In addition, Displaced Households and Displaced Homemakers (defined in next paragraph) who meet the income eligibility criteria may participate in the Program without regard to previous home ownership.

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

3. ***Liquid Assets.*** Eligible Households who apply to participate in the Program shall meet the Agency’s liquid asset requirements. Household assets cannot exceed the combined total of (i) Participant’s downpayment (which shall be at least 3% and not more than 20% of the purchase price), plus (ii) estimated closing costs, plus

(iii) six (6) months housing costs, plus (iv) \$10,000. Household assets shall be calculated in accordance with Title 25 Cal. Code Regs Section 6914(a) as set forth in Exhibit "B" attached hereto.

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

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

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

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

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

B. Eligible Property

1. **Type of Single-Family Residence**

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

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

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

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

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

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

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

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

5. **Purchase Price.** Subject to all other Program requirements, in particular that Participant meet the Affordable Housing Cost requirement for monthly housing cost, the maximum purchase price for an eligible Property shall be adjusted annually each September based on and corresponding to the median purchase price for single family houses in the City of Costa Mesa as published by Stewart Title Company (or another comparable, reputable index) based on median values for the last three months of the prior calendar year (As of September 2005, the maximum purchase price for an eligible Property is \$655,000, but this number will be subject to adjustment annually.)

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

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

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

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

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

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

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

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

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

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

For example: If the amount of the Agency Loan equals \$200,000 and Participant paid \$400,000 as the original Purchase Price for the Property, then the Applicable Factor or percentage would be 50% ($\$200,000 \div \$400,000$); then, upon repayment of the Agency Loan prior to the end of the Term of the Agency Loan, the Agency will receive 50% of the Gain, i.e., a 50% share of the appreciation x (New Sales Price minus \$400,000).

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

The following table further illustrates calculation of an Equity Sharing Payment, calculated on an Agency Loan repayment due in year-5 of the Term (i.e., prior to the 30th anniversary of the Recordation Date during the Term of the Agency Loan.)

[table on next page]

[TO BE REVIEWED AND REVISED BY KMA]

	<i>Purchase Price in 2005</i>	<i>Sales Price (or appraised value) in 2010</i>	<i>Gain</i>
Market Rate Value of Property	\$425,000	\$ 1,102,000	\$ 677,000
<u>Participant Gain X Applicable Factor Calculation = Equity Share Payment</u>			\$677,000 [Gain] x [times] 47% Appl.Fac. = \$318,200
1 st Trust Deed Loan Repayment (\$204,000)		\$190,600	
Agency Loan 2 nd TD Payment		\$518,200	
Principal Balance (\$200,000)		\$200,000	
Equity Share Payment (\$318,200)		\$318,200	
Accumulated Participant Equity (downpayment/costs paid)		<u>\$34,400</u>	
Total Sales Price Offsets		\$743,200	
Net Participant Gain		\$358,800	
Monies Repaid to Agency's Housing Fund		\$518,200	

V. FINANCING FOR AGENCY LOAN

A. Minimum Downpayment Contribution by Participant. All Participants in the Program shall contribute a down payment of not less than three percent (3%) and not more than twenty percent (20%) of the Purchase Price of the Property, plus closing costs. All Participants must obtain a First Trust Deed Loan. A Participant's downpayment (minimum 3% and maximum 20%) shall not be derived from the proceeds of a loan or a gift. The availability of funds must be evidenced by a checking or savings account statement and verified through the liquid assets requirements set forth herein.

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

C. Second Deed of Trust (Agency Loan). Maximum Agency Loan Amount. The maximum principal amount of the Agency Loan to assist Participant to purchase of Property at an Affordable Housing Cost shall in no event exceed is \$240,000. In order to allow Eligible Households meeting all other Program criteria to participate in the Program, the Program Administrator, with approval of Program Director, may permit the Agency Loan to finance all or a portion of the non-recurring closing costs, subject to the approval by the

Lender for the First Trust Deed Loan and so long as the maximum Agency Loan amount does not exceed \$240,000.

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

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

a. **Earn-Out Credits.** Commencing on the 30th anniversary of the Recordation Date and continuing through to the end of the Term of the Agency Loan (45th year), one-fifteenth (1/15) of the amount due as an Equity Sharing Payment under the Note evidencing the Agency Loan shall be “earned-out”, deemed discharged, and forgiven. In the event that Participant owns and occupies the Property and fully complies with the Program and all Agency Loan Documents, then, based on fifteen years of Earn Out Credits, at the end of the Term of the Agency Loan no Equity Sharing Payment will be due by Participant.

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

Equity Sharing Payment will have been fulfilled and the Equity Sharing Payment obligation will have been fully discharged and forgiven. If during the 30th and 45th years of the Term of the Agency Loan either and the earlier of the following occur: (a) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director, or, (b) default by Participant on the Agency Loan, then the Equity Sharing Payment shall become due and payable upon such event.

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

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

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

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

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

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

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

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

In all other cases, refinancing shall cause acceleration and full repayment of the Agency Loan together with the Equity Sharing Payment, if any, as specified in the Agency Loan documents. In connection with a refinancing that triggers acceleration and payment of the Agency Loan and Equity Sharing Payment, an appraisal by an Agency-approved appraiser shall be conducted, at Participant's expense, to establish the market rate value of the Property in order to calculate the "Sales Price" for application of the formula and determination of the amount of the Equity Sharing Payment, if any, due under the Agency Loan documents.

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

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

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

B. Penalties. If any applicant, Eligible Applicant, and/or Participant willfully and knowingly makes a false statement or representation, or knowingly fails to disclose a material

fact for the purpose of application to and qualifying for the Program, or, in completing certifications, affidavits, or recertification documents he/she/they will be subject to any and all legal remedies available under federal, state, and local laws, including applicable criminal and civil laws and regulations.

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

VII. PROGRAM IMPLEMENTATION

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

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

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

C. Housing Counseling. As an express condition precedent to obtaining an Agency Loan, each applicant to the Program who receives a Program Reservation is required to participate in one-on-one housing counseling session(s) with designated Agency staff that will provide more specific information on the Program and Agency Loan.

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

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

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

EXHIBIT A

2005 INCOME LIMITS¹

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

<i>Income Level</i>	<i>1 person household</i>	<i>2 person household</i>	<i>3 person household</i>	<i>4 person household</i>	<i>5 person household</i>	<i>6 person household</i>	<i>7 person household</i>	<i>8 person household</i>
<i>Extremely Low</i>	\$16,150	\$18,450	\$20,750	\$23,050	\$24,900	\$26,750	\$28,550	\$30,400
<i>Very Low</i>	\$26,900	\$30,700	\$34,550	\$38,400	\$41,450	\$44,550	\$47,600	\$50,700
<i>Lower</i>	\$43,000	\$49,150	\$55,300	\$61,450	\$66,350	\$71,250	\$76,200	\$81,100
<i>Median</i>	\$53,000	\$60,550	\$68,150	\$75,700	\$81,750	\$87,800	\$93,850	\$99,900
<i>Moderate</i>	\$63,600	\$72,700	\$81,750	\$90,850	\$98,100	\$105,400	\$112,650	\$119,900

¹ Income limits are subject to change, generally annually.

¹ Income limits are subject to change, generally annually.

EXHIBIT A

EXHIBIT B

DETERMINATION OF GROSS HOUSEHOLD INCOME

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

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

EXHIBIT B

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

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

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

EXHIBIT B

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

EXHIBIT B

Table of Contents

	<u>Page</u>
I. INTRODUCTION.....	1
A. Encourage Homeownership in City	1
B. Basic Structure.....	1
C. Definitions.....	4
II. ELIGIBILITY CRITERIA	10
A. Eligible Households and Eligible Participants.....	10
B. Eligible Property	11
III. AFFORDABLE HOUSING COST.....	13
IV. COVENANTS AND RESTRICTIONS	13
A. Maintenance and Prohibition of Criminal Activity Covenants.....	13
B. Owner-Occupancy Covenant	13
C. Term of Declaration.....	14
D. Calculation of Equity Sharing Payment.....	14
V. FINANCING FOR AGENCY LOAN.....	15
A. Minimum Downpayment Contribution by Participant	15
B. First Deed of Trust Loan.....	15
C. Second Deed of Trust (Agency Loan)	15
VI. VIOLATIONS/LIQUIDATED DAMAGES.....	18
VII. PROGRAM IMPLEMENTATION.....	19
A. Applicant Affidavits; Evaluation; Program Reservation; Processing.....	19
B. Underwriting; Evaluation by Program Administrator	19
C. Housing Counseling.....	19
D. Funding Approval	19
E. Program Manual.....	19
F. Agency Board Delegation of Program Implementation to Program Director	20

ATTACHMENT 4

Homebuyer Assistance Program Manual

[attached]

**HOMEBUYER
ASSISTANCE PROGRAM
PROGRAM MANUAL**



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

TABLE OF CONTENTS

I. INTRODUCTION..... 1
 A. Purpose..... 1
 B. Source of Funding..... 1
 C. Objective of Manual 1
 D. Guidelines Priority 1
II. PROGRAM PARTICIPANTS 1
 A. Costa Mesa Redevelopment Agency 1
 B. Program Administrator 1
 C. Lenders..... 2
III. DEFINITIONS. 2
 A. Definitions Track Guidelines..... 2
IV. GENERAL INFORMATION. 11
 A. Encourage Homeownership in City 11
 B. Basic Structure 11
 C. Participant Eligibility Criteria..... 12
 D. Property Eligibility Criteria. 13
 E. Affordable Housing Cost 14
 F. Covenants And Restrictions..... 14
V. PROGRAM PROCESSING PROCEDURES..... 15
 A. Review 15
 B. Review by Program Administrator 16
 C. Refinancing/Request for Subordination..... 22
VI. LENDER PARTICIPATION. 22
 A. Lender Training 22
 B. Coordination with Program Administrator 23
 C. Pre-Qualification of Applicant by Lender for First Trust Deed Loan 23
 D. Fees and Costs..... 23
 E. Certifications..... 23
 F. Verifications..... 23
 G. Applicant Eligibility Requirements. 24
 H. Fund Reservation 25
 I. Re-Submissions of Returned or Rejected Applications..... 25
 J. Representations and Warranties in Applicant Affidavit 26
 K. Audit 27
 L. Conflict of Interest 27
 M. Refinancing..... 27

LIST OF EXHIBITS

- Exhibit A Agency Welcome Letter and Information Sheet (Form)
- Exhibit B Form of Pre-Application Checklist (Form)
- Exhibit C Applicant Affidavit (Form)
- Exhibit D Reservation Letter (Form)
- Exhibit E Lender Participation Agreement (Form)
- Exhibit F Orange County Low to Moderate Income Limits
- Exhibit G Determination of Gross Household Income
(Title 25 California Code of Regulations § 6914)
- Exhibit H Subordination Agreement (Form)
- Exhibit I Escrow Instructions for Agency Loan (Form)

HOMEBUYER ASSISTANCE PROGRAM

I. INTRODUCTION.

A. Purpose. The Costa Mesa Homebuyer Assistance Program has been established to encourage affordable home ownership in the City of Costa Mesa by providing financial assistance to eligible homebuyers purchasing qualifying Property. Program assistance is provided in the form of an Agency Loan that is a zero interest, deferred homebuyer assistance loan that includes an Equity Sharing Payment designed to assist Low to Moderate Income Households who, based on institutional underwriting criteria, are unable to qualify for and/or afford to purchase a home without such assistance. Qualifying Property must be a single family home, condominium or townhome located within the City of Costa Mesa and purchased for owner-occupancy at Affordable Housing Cost and with occupancy meeting the HQS occupancy standard.

B. Source of Funding. The Program is funded with the Low and Moderate Income Housing Fund of the Costa Mesa Redevelopment Agency established to increase, improve, and preserve the community's supply of housing at an Affordable Housing Cost. Agency Loan funds are combined with the funds of participating Low to Moderate Income Households who desire to become homeowners to enable such households to qualify for a First Trust Deed Loan and achieve affordable homeownership.

C. Objective of Manual. The objectives and structure of this Program Manual is to describe the Homebuyer Assistance Program and set forth the roles of the Agency, Lenders, Program applicants, Program Administrator, and Program Director. This Manual is targeted to qualified Lenders that participate in the Program, and describes Program eligibility, underwriting requirements, processing procedures, and policies. Sample Program forms are included as Exhibits to this Program Manual.

D. Guidelines Priority. If you are an approved Lender, you should read and understand the Program Guidelines, this Manual, and all other Program requirements and implementing documents. The overriding description of the Program is set forth in the Agency's adopted *Guidelines for Homebuyer Assistance Program, Agency Loans, Including Equity Sharing Payments* ("Guidelines"). To the extent there is an inconsistency between the Guidelines and this Program Manual, the Guidelines shall prevail. Capitalized terms used in this Manual shall be as defined in the Guidelines, or as otherwise defined herein or in the Program's implementing documents, including without limitation the Agency Loan Agreement.

II. PROGRAM PARTICIPANTS

A. Costa Mesa Redevelopment Agency. The Program will be administered, implemented, and supervised for the Agency by the Program Director. Further, Agency and Program Director, through the Guidelines, have designated and vested with the City's Neighborhood Improvement Manager (and his/her staff) day-to-day administration of the Program. Agency staff will provide Program information to interested persons.

B. Program Administrator. The Agency is under contract with Amerinational Community Services Group (Amerinational) to assist as Program Administrator under the direction of Program Director. Amerinational will serve as Program Administrator while under contract with the Agency for these services; provided however, it is in Agency's sole discretion to designate a

Program Administrator for the Program. Amerinational is a financial services company that specializes in the administration of government programs, providing a variety of administrative services. As Program Administrator, Amerinational will work closely with Lenders by providing training in Program requirements, underwriting criteria, and procedures. Program Administrator will conduct seminars and prepare Agency Loan documents and undertake such tasks pursuant to its consulting agreement and as directed by Program Director.

C. Lenders. To be eligible to become an approved Lender to Program Participants, each interested lender must apply to and participate in special lender training regarding the Program. The training will be provided by Program Administrator and will educate Lenders to assist their borrowers, who are Program applicants, through the homebuying experience, including participation in the Program and obtaining the Agency Loan to assist in acquisition of the eligible Property. Eligible Lenders must be private institutional lenders, federally insured and approved by Program Director. The role and responsibilities of Lenders are set forth in a Lender Participation Agreement substantially in the form attached to this Manual as Exhibit E.

III. DEFINITIONS.

A. Definitions Track Guidelines. The following are definitions used in this Program Manual as set forth in the Guidelines. Unless the context requires otherwise, the following words and terms have the meanings set forth below:

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

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

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

(a) ***Moderate Income Household.*** Minimum housing cost cannot be less than twenty-eight (28%) of the gross income of the household nor exceed the product of thirty-five percent (35%) times one hundred ten percent (110%) of area median income adjusted for family size appropriate for the unit.

(b) ***Lower Income Household.*** Maximum housing costs cannot exceed thirty percent (30%) times seventy percent (70%) of the area median income adjusted for family size appropriate for the unit.

(c) **Very Low Income Household.** Maximum housing costs cannot exceed thirty percent (30%) times fifty percent (50%) of the area median income adjusted for family size appropriate for the unit.

(d) **Adjusted for family size appropriate to the unit** means the following:

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

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

4. **“Agency Loan”** means the homebuyer assistance and shared appreciation loan by the Agency to the Participant, which in no event shall exceed a principal amount of \$240,000 plus the lien for the Equity Sharing Payment. The Agency Loan shall have a maximum established by property type which is to be determined on an annual basis and published by the Agency prior to the disbursement of funds for each fiscal year. The Agency Loan will be provided pursuant to the terms and conditions of the Agency’s standard form Loan Agreement and shall be evidenced by a Promissory Note and secured by a Second Deed of Trust, including other Agency Loan Documents implementing the Program. The principal amount disbursed under the Promissory Note for Participant’s purchase of the Property (up to \$240,000) will accrue zero (0%) interest.

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

(a) the principal (and Equity Sharing Payment) shall be due in full upon the earlier to occur of:

(i) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director (inclusive of the transfer/conveyance of the Property upon or in connection with death(s) of [both] Participant(s) through a trust, will, or other estate planning or probate event), or

(ii) default by Participant on the Agency Loan; and/or, as applicable;

(b) if the Agency Loan has not repaid by the 30th anniversary of the Recordation Date based on the occurrence of (a)(i) or (ii) in the preceding subsections, then the principal shall become fully amortized and fixed, level monthly payments shall commence and be due and payable on the first of each month with amortization based on fifteen years remaining on the Term of the Agency Loan; and/or, as applicable,

(c) if the First Trust Deed Loan is paid off by Participant sooner than the 30th anniversary of the Recordation Date, then after the First Trust Deed Loan is repaid commencing with the next following anniversary of the Recordation Date and continuing through to the end of the

45-year Term of the Agency Loan the principal shall become fully amortized and fixed, level monthly payments shall commence and be due and payable on the first of each month with amortization based on years remaining between payoff of the First Trust Deed Loan (prior to such 30th anniversary) and the end of the 45-year Term of the Agency Loan.

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

6. **“Applicant”** means any Low to Moderate Income Household who applies to obtain an Agency Loan under the Program.

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

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

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

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

11. **“Deed of Trust”** or **“Agency Deed of Trust”** have the same meaning and shall mean the Deed of Trust and Rider thereto to be executed by Participant as Trustor in favor of the Agency to be recorded as a second lien against the Property securing the Promissory Note for the Agency Loan, including the principal of the Agency Loan and the Equity Sharing Payment.

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

13. **“Equity Sharing Payment”** means the amount due in addition to the principal (up to \$240,000) amount disbursed under the Promissory Note for Participant’s purchase of the

Property, which amount is equivalent to a percentage share of the appreciation in the value of the Property based upon the proportionate share of the Agency Loan to the original purchase price for the Property.

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

(a) the earlier to occur during the 45-year Term of the Agency Loan of either:

(i) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director;

(ii) default by Participant on the Agency Loan; and/or, as applicable

(b) if the Equity Sharing Payment did not become due and repaid by the 30th anniversary of the Recordation Date due to the occurrence of (a)(i) or (ii) in the preceding clause, then commencing on the 30th anniversary of the Recordation Date and continuing for each of the fifteen (15) years remaining on the 45—year Term of the Agency Loan, one-fifteenth (1/15) of the amount due as the Equity Sharing Payment will be discharged and forgiven, such that in the event Participant owns and occupies the Property for the full 45 year Term of the Agency Loan, then the terms and conditions of the obligation to make the Equity Sharing Payment will have been fulfilled and the Equity Sharing Payment obligation will have been fully discharged and forgiven.

(c) if during the 30th and 45th years of the Term of the Agency Loan either and the earlier of the following occur:

(i) first resale, full or partial transfer or conveyance, or refinancing without the express consent of Program Director; or

(ii) default by Participant on the Agency Loan, then the balance of the Equity Sharing Payment (as then calculated) shall become due and payable upon such event.

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

14. “First Trust Deed Loan” means the first mortgage obtained by Participant from Lender, the proceeds of which are expended (along with the proceeds of the Agency Loan) to acquire the Property. Participating homebuyers must qualify for a First Trust Deed Loan. All First Trust Deed Loans shall be fixed-rate, level payment, 30 year first mortgage loans secured through a Lender.

(a) Refinancing of First Trust Deed Loan. Refinancing of the First Trust Deed Loan will be permitted only upon express written approval by the Program Director, which pre-approval is and shall be a material prerequisite to any type of refinancing or modification of the First Trust Deed Loan and which approval shall be within the sole discretion of the Program Director and subject to the terms of the Agency Loan (i.e., payments commence in year 30.) An approved

refinancing does/will not trigger repayment of the Agency Loan, including principal and Equity Sharing Payment.

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

- (i) no increase in the principal (except by the amount of reasonable closing costs for one pre approved re-financing as determined by Program Director);
- (ii) first mortgage remains and continues fully amortizing,
- (iii) no cash/equity withdrawal;
- (iv) no variable interest rate;
- (v) no negative amortization in connection with such proposed refinancing;
- (vi) no interest only payment structure; and
- (vii) no subordination of the Agency Loan below second lien position.

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

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

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

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

participate as a Lender in the Program and has entered into a Lender Participation Agreement acceptable to the Agency.

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

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

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

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

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

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

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

(a) **Types of Ownership Interests.** The Low to Moderate Income Household that becomes a Participant in the Program and receives an Agency Loan shall own and occupy the Property. Title to the Property shall vest with Participant upon concurrent closing of the First Trust Deed Loan and Agency Loan and Participant shall hold title in one of the following forms (i) or (ii), and not in the form of (iii) below:

- (i) **Fee simple:** Fee simple interest in Property, as Participant’s
 - (1) sole and separate property; or

(2) community property;

(3) joint tenants; or

(4) tenants in common; or

(5) as trustors and beneficiaries of a family trust, subject to the requirements in the following subsections:

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

i. that the Eligible Applicant is/are parties to the trust agreement, the Property will be owned in fee by the trust;

ii. that trustors will be the Owner-Occupants of the Property; and

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

(ii) *Leased Land.* Fee simple interest in the improvements (dwelling) and leasehold interest under a long-term ground lease for the land upon which the improvements are constructed and exist, i.e., as a lessee of a long-term ground lease. Eligible Applicants who propose to buy a Property with fee ownership of improvements and situated on leased land (versus fee simple ownership of land and improvements) are not disqualified from application, and such application may be considered, so long as the remaining term of the ground lease for the leased land upon which the improvements (dwelling) are situated is for a term that is not less than one and one-half (1½) times longer than the term of the First Trust Deed mortgage.

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

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

27. ***“Program”*** means the Costa Mesa Homebuyer Assistance Program as amended, directed, and approved by action of the Agency Board at their meeting of May 10, 2005.

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

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

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

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

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

33. **“Purchase Price”** means the *original* purchase price paid by the Participant to the Seller for Seller’s interest in the Property, exclusive of escrow fees, title insurance costs, broker’s commission, loan fees or any other closing or transaction costs.

34. **“Qualified Capital Improvements”** mean and include capital improvements made to the Property by Participant which, as determined by an appraisal of the Property, have added fair market value in an amount not less than one and one half percent (1.5%) of the original Purchase Price.

(a) For an improvement to qualify as a Qualified Capital Improvement it must do one or more of the following:

- (i) increase the basis of the Property;
- (ii) add value to the Property, prolong the useful life of the Property; or
- (iii) adapt the Property to new uses

all pursuant to the rules and regulations of the Internal Revenue Service.
(See IRS Publication No. 523.)

(b) Examples of improvements that qualify as Qualified Capital Improvements include:

- (i) room additions;
- (ii) deck additions;
- (iii) installation of a swimming pool;
- (iv) new roof;
- (v) fencing;
- (vi) installation of central air conditioning;
- (vii) installation of built in appliances;
- (viii) kitchen modernization; or
- (ix) installation of new flooring and/or wall to wall carpeting.

(c) Qualified Capital Improvements do not include repairs which serve to maintain the Property but do not increase basis, add to its value, adapt it to new uses, or prolong its life.

(i) Examples of repairs that are not Qualified Capital Improvements include, without limitation:

- (1) interior painting;
- (2) exterior painting;
- (3) fixing gutters;
- (4) repair floors, flooring, or carpeting;
- (5) repair of leaks;
- (6) repair of plaster, dry wall, stucco, or other interior or exterior surfaces; or
- (7) replacement of broken window panes or repair of inoperable windows.

(d) A capital improvement made to the Property without a required building permit from the City will not qualify as a Qualified Capital Improvement unless and until such a permit is subsequently obtained. Furthermore, Participant hereby acknowledges and agrees that Agency will immediately report such an improvement to the City for appropriate enforcement action.

35. ***“Recordation Date”*** means the date of recording in the Official Records of the County of Orange, California of the Deed of Trust securing the Agency Loan.

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

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

38. **“Seller”** means the person or entity from which the Participant originally purchased the Property.

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

IV. GENERAL INFORMATION.

A. **Encourage Homeownership in City.** The Program has been established to encourage home ownership in the City of Costa Mesa by providing financial assistance to eligible homebuyers to purchase qualifying Property at an Affordable Housing Cost.

B. **Basic Structure.** The basic structure of Program includes:

1. Applicant works with a participating Lender to determine eligibility for a first trust deed in conjunction with the Agency’s assistance;

2. Applicant works with a selected real estate professional to select an eligible property and enter into a purchase agreement;

3. Lender assists applicant to compile and submit a Program Reservation Request Package along with the Applicant Affidavit;

4. Evaluation of the Program Reservation Request Package by Program Administrator;

5. Determination of whether the applicant household becomes an Eligible Applicant;

6. Issuance of a Reservation Letter committing the funds for forty-five (45) days;

7. Eligible Applicant’s participation in the required housing counseling session(s) about the Program;

- 67 -

8. Compilation of a Copy Package for Program Administrator;
9. Selection as a Participant and obtaining concurrently the First Trust Deed Loan and Agency Loan; and
10. Entering into all implementing Program documents and closing escrow concurrently for both First Trust Deed Loan and Agency Loan for Participant's acquisition of the Property.

C. Participant Eligibility Criteria

1. *Eligible Households and Eligible Applicants*

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

(b) *Eligible Homebuyer Status.* Eligible Households may apply to participate in the Program and shall include Low to Moderate Income Households who have not owned a present Ownership Interest in real property during the last three (3) years. In addition, Displaced Households and Displaced Homemakers (defined in next paragraph) who meet the income eligibility criteria may participate in the Program without regard to previous home ownership.

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

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

(d) *Credit Worthiness.* Eligible Households for participation in the Program shall have (i) an acceptable credit "score" and a minimum credit rating of "fair" as defined by the Program Administrator and (ii) sufficient credit worthiness to qualify for and obtain First Trust Deed Loan as determined by the Lender.

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

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

(g) *Maximize First Trust Deed Loan Amount.* In connection with evaluation and pre-qualification of Eligible Applicants, both Lender and applicant shall be aware that the Program requires each Participant to obtain the maximum supportable First Trust Deed Loan from Lender, in order to determine the amount of the Agency Loan (in no event exceeding \$240,000.)

D. Property Eligibility Criteria.

1. Type of Single-Family Residence

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

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

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

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

4. Purchase Price. Subject to all other Program requirements, in particular that Participant meet the Affordable Housing Cost requirement for monthly housing cost, the maximum purchase price for an eligible Property shall be adjusted annually each September based on and corresponding to the median purchase price for single family houses in the City of Costa Mesa as published by Stewart Title Company (or another comparable, reputable index) based on median

values for the last three months of the prior calendar year (As of September 2005, the maximum purchase price for an eligible Property is \$655,000, but this number will be subject to adjustment annually.)

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

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

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

1. Maintenance and Prohibition of Criminal Activity Covenants. The Declaration includes covenants imposing ongoing maintenance and upkeep of the Property, generally requiring each Participant to maintain the Property, both land and improvements, and the exterior and interior, in good physical condition. Further the Declaration imposes covenants prohibiting criminal activities at the Property, including keeping the Property free from gang or drug-related activities, other felonious criminal activity, and public or private nuisances. These covenants run for the Term of the Agency Loan.

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

(a) **HQS Occupancy Standard.** Participant shall meet and continue to comply with the HQS occupancy standard during the Term of the Agency Loan.

3. Term of Declaration. During the Term of the Agency Loan and Affordability Period of the Declaration, a Participant may pay off the Agency Loan and "buy-out" and cause release of the Declaration in order to (a) rent the Property without restriction to a prospective renter/lessee, or (b) sell the Property without restriction to a prospective buyer, or (c) refinance the First Trust Deed in a manner not approved by the Program Director, or (d) incur additional debt, such as a line of credit, third or fourth trust deed, or other encumbrance, or

1. **Interested Applicants.** Interested persons contact Program Director for Program information. Program Director sends a General Information Package which includes the following:

- (a) Welcome Letter & Information Sheet (Exhibit A);
- (b) Approved Lender List; and
- (c) Pre-Application Checklist (Exhibit B)

2. **First-come, First Serve.** Participation in the Program is strictly on a first-come, first-served basis.

B. Contact with Lender. An Eligible Applicant contacts a Lender from the approved Lenders list to obtain preliminary approval and/or pre-qualification for a First Trust Deed Loan. Lender determines if Applicant is eligible for a First Trust Deed Loan and Agency Loan approval based on preliminary indications of Gross Household Income, Purchase Price for the Property, prior ownership of real property, and other Program eligibility factors.

1. **Select Eligible Property.** Eligible Applicant selects an eligible Property either on their own or through a professional real estate professional, such as an agent, broker, or realtor, of his/her choice.

2. **Purchase/Sale Contract for Property.** Eligible Applicant may enter into a purchase/sale contract for an eligible Property and shall obtain Seller's acknowledgement in writing either in the purchase/sale contract or other writing that Seller is aware of Eligible Applicant's pending Reservation Letter and/or Program Reservation Package and potential participation in the Program. Seller shall include as an express contingency and condition to closing that Eligible Applicant's, as buyer, selection to and participation in the Program is necessary for buyer to acquire the Property at an Affordable Housing Cost.

3. **Lender Commitment.** Eligible Applicant formally applies to the Lender for a loan commitment for a First Trust Deed Loan to acquire the Property.

4. **Program Reservation Package.** If Eligible Applicant qualifies, the Lender submits a "**Program Reservation Package**" to the Program Administrator, which package includes the following:

- (a) Lender's Application for the First Trust Deed Loan;
- (b) Request for Reservation Letter (Exhibit C);
- (c) Good Faith Estimate;
- (d) Purchase/Sale Contract between Eligible Applicant and Seller; and
- (e) Applicant Affidavit (Exhibit D)

(i) The Applicant Affidavit one is part of Program Reservation Package and shall contain the following:

(e) otherwise exit out of the Program as a Participant, expressly subject to and so long as Participant pays in full both (i) the principal amount of the Agency Loan, and (ii) the Equity Sharing Payment, which is a percentage share of the appreciation in the Property (if any) to the Agency.

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

1. **Timing and Maximum Agency Loan Amount.** In connection with the inspection and evaluation of the condition of the Property, as hereinafter described, as a part of the processing for an Agency Loan, applicants may concurrently or within six (6) months of acquisition of the Property apply to and participate in the SFRGLP. An applicant may request, apply to, and participate in the SFRGLP, subject to compliance with all of the SFRGLP's policies and procedures, which is and shall remain a separate Agency/City program with policies and procedures. In no event shall the cumulative amount of funds loaned by Agency under the Program for the Agency Loan and by Agency or City under the SFRGLP for rehabilitation of the Property exceed a total of \$240,000.

(a) Therefore, in the event a Participant anticipates it may wish to apply for participation in both this Program and in the SFRGLP, then Participant shall reasonably consider the type of Property to be acquired and cumulative funds that Participant may desire to borrow through the Program and the SFRGLP because in no event shall the cumulative principal amount loaned through both this Program and the SFRGLP exceed \$240,000.

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

3. **Coordination and Oversight of SFRGLP through Program Director.** The scope of the rehabilitation improvements approved under the SFRGLP and the disbursements from both this Program for acquisition of the Property and from the SFRGLP for rehabilitation shall be coordinated and overseen by the Program Director. Upon proper and complete application to and qualification for the SFRGLP, Participant may receive reasonable priority for processing his/her/their loan provided under the SFRGLP program requirements; provided however and subject to Program Director retaining all discretion regarding the timing, preference, if any, and actual processing of Participant obtaining such additional loan under the SFRGLP.

V. PROGRAM PROCESSING PROCEDURES.

A. **Review.** The Program processing procedures are designed to coincide with the standard mortgage loan processing and underwriting procedures in place at most mortgage lending institutions. Recognizing there are procedural variations among Lenders, the procedures outlined here are intended to serve as parameters with respect to the sequence of events. However, all the elements of the processing sequence outlined in this Manual must at some point be completed, regardless of sequence, by either the Lender, Program Administrator, Program Director, Eligible Applicant, and/or the Seller.

(1) Certification that Property will be owned and occupied as the Eligible Applicant's principal residence and that the Eligible Applicant must notify Program Director and the Lender for the First Trust Deed Loan when the Property ceases to be Participant's primary and permanent residence (no rentals).

(2) Certification that Eligible Applicant has not had an Ownership Interest in real property during the preceding three (3)-year period; or otherwise qualifies to participate in the Program as a Displaced Household or Displaced Homemaker.

(3) Certification that the First Trust Deed Loan is within the provisions and requirements for a "New Mortgage Loan" as defined in the Internal Revenue Code.

(4) Certification that Eligible Applicant's Gross Household Income does not exceed permitted income limits.

(5) Certification that the Agency Loan is and shall remain during the Term of the Agency Loan non-assignable, non-assumable, and non-transferable.

5. Program Information Shall Be Factual, Truthful and Provided under Penalty of Perjury.

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

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

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

6. Review of Program Reservation Package. Program Administrator reviews Program Reservation Package. If package meets Program requirements, the Program Administrator contacts Agency and initiates one (1) of the following options:

(a) Confirmation of Reservation Letter to Lender, including Missing Items Checklist

(b) Additional Information Needed letter

(c) Denial Letter including reason for denial

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

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

9. **Escrow Period.** If the Lender receives a Confirmation of Reservation Letter, Lender has 45 days from the date of the Reservation Letter to close escrow on the First Trust Deed Loan, concurrent with the close of escrow for the Agency Loan.

10. **Copy Package.** Lender shall prepare, compile, and send to Program Administrator a complete "Copy Package" of the First Trust Deed Loan documents after Lender approves, or issues a commitment for, the First Trust Deed Loan. The Copy Package must include the entire package submitted to Lender's underwriter and shall include legible and complete copies of all of the following:

- (a) Reservation Letter issued by Program Administrator
- (b) Request for Program Reservation Package
- (c) Purchase/sale contract signed by Participant and Seller(s)
- (d) Good faith estimate
- (e) Applicant Affidavit for Agency Loan
- (f) Community Home Buyer Program Course Certificate

- (g) FNMA Form 1003 Application, completed and signed
- (h) Escrow Instructions
- (i) True and complete copy of the most recent (including all supplements) of Preliminary Title Report for the Property, with complete and legible copies of each back-up document for each Schedule B exception to title shown on such report
- (j) Appraisal
- (k) Lender's underwriting worksheet and/or approval memorandum
credit report
- (l) Three (3) years signed and complete federal and state income tax
returns
- (m) All appropriate income and asset verifications, including but not
limited to:
 - (i) Three (3) months bank statements for all sources of funds relating to evidencing Gross Household Income, liquid assets, and other funds to qualify as an Eligible Applicant and Program Participant
 - (ii) VOE's, VOD's, Paystubs, W2's
 - (iii) Gift letters where applicable and only as approved by
Program Director
 - (iv) Explanation of derogatory credit
 - (v) MCAW or 1008
- (n) Statement of household composition, including name, age, and relationship for everyone who comprises the Low to Moderate Income Household and who will occupy the Property.
- (o) Property inspection report(s), including documentation evidencing correction of any and all identified health and safety violations, serious municipal code, building code, or other uniform codes violations, with all corrective actions taken in accordance with applicable laws and regulations, including for example obtaining necessary permits and/or payment of necessary fees to correct and cure such violation(s).
- (p) Complete and full vesting information for Property to be acquired by Participant, including name(s) on title and how title will be held (e.g., John Smith and Ann Smith, husband and wife as community property.)

11. *Missing Items Checklist.* Program Administrator receives Copy Package from Lender and reviews for completeness. If items are missing, Program Administrator will submit a "Missing Items Checklist" to Lender. Loan underwriting is suspended until items labeled "missing" and/or "needed prior to approval" are received and meet the Program requirements.

12. **Preliminary Title Report.** Program Administrator shall review the Preliminary Title Report and all back-up documents for each title exception shown on Schedule B. Any and all monetary encumbrances against the Property shall be removed as a condition to closing the Agency Loan. If any title exception may affect negatively the Deed of Trust securing the Agency Loan and/or the Declaration to be recorded against the Property, then Program Administrator shall inform both the Eligible Applicant, Lender, and escrow officer, and removal of such exception(s) shall be a condition precedent to final loan approval and closing the Agency Loan.

13. **Agency Loan Underwriting; Final Loan Recommendation.** Program Administrator underwrites the Agency Loan and sends a Final Loan Recommendation ("FLR") along with the preliminary title report to Program Director for consideration and action. The FLR may include either of the following:

- (a) Approval of the Agency Loan (approval)
- (b) Denial of Agency Loan and participation in the Program (denial).

14. **Approval or Disapproval of FLR.** Upon receipt of a FLR from the Program Administrator, the Program Director will initiate one of the following options:

- (a) If approved, the Program Director will execute the FLR which authorizes the Program Administrator to draw Agency Loan documents and proceed through funding.
- (b) Request for additional information from Program Administrator.
- (c) Denial of the FLR.

15. **Agency Loan Documents Package.** Upon receipt of an approved FLR from Program Administrator, Program Administrator shall prepare and send the following documents to the designated escrow company (with copy of escrow instructions also to title company) related to the Agency Loan and Participant's acquisition of the Property:

- (a) Escrow Instructions for Agency Loan (substantially in the form of Exhibit I, attached and fully incorporated);
 - (i) The escrow instructions shall be directed to and signed/acknowledged by both the escrow agent and title officer.
 - (ii) The escrow instructions shall direct that closing of the Agency Loan shall be subject to and conditioned upon issuance by title company of a lender's policy of title insurance for the Agency Loan.

(1) The Agency's lender's policy shall be a 1970 ALTA extended coverage Lender's Policy of Title Insurance (amended 10/17/70) with CLTA Endorsement No. 100 (and other endorsement(s) deemed necessary by Program Administrator based on Program Administrator's review of the condition of title) naming the Costa Mesa Redevelopment Agency, City of Costa Mesa, California as the insured, in the original principal amount of the Agency Loan insuring that the Deed of Trust securing the Promissory Note for the Agency Loan constitutes a second lien on the Property, subject only to (i) non-delinquent taxes, (ii) First Trust Deed Loan,

(iii) exceptions shown on Schedule B of the preliminary title report that are approved to remain by Program Administrator based on its review of the condition of title to Property, and (iv) Agency Declaration.

- (b) Agency Loan Documents; and
- (c) Other documents as required by Program Director.

16. Execution of Loan Documents. Escrow agent assists Applicant to execute loan documents for both Lender's First Trust Deed Loan and Agency's Agency Loan. Upon execution of all such loan documents, escrow will forward the Agency Loan documents to Program Director for Agency's authorized designee's execution, notarization, acceptance of deed of trust, and attest. After execution of the Agency Loan documents by Program Director, Escrow will pick up documents from Program Director and contact Program Administrator to order funds.\

17. Conditions Precedent. Program Administrator ensures all conditions precedent to Agency Loan closing have been satisfied and, upon close of escrow, ensures all Agency Loan documents will be delivered to Program Director, including, but not limited to, Agency's lender's policy of title insurance.

18. Monitoring of Loan Closing. Program Administrator monitors each Agency Loan closing, including the following:

- (a) Participant's compliance with the insurance requirements for the Property, including hazard and homeowner's insurance;
- (b) Corrections to condition of title and removal of disapproved exceptions to title;
- (c) Confirmation of vesting of title and changes thereto, if any; and
- (d) Escrow agent and title officer's implementation of the escrow instructions.

19. Loan Closing. Upon receipt of loan closing funds, the escrow agent will carry out loan closings.

20. Ongoing Monitoring. Program Administrator conducts ongoing monitoring and loan administration tasks for each Agency Loan while such loan remains outstanding, including the following:

- (a) Timely payment of delinquent and allocation of property taxes and assessments;
- (b) Confirmation of vesting of title and changes thereto, if any;
- (c) Calculation of accrued interest;
- (d) Voluntary payments;

- (e) Agency Loan payoff quotations;
- (f) Reconveyances;
- (g) Subordination agreement(s);
- (h) Reaffirmation of subordination; and
- (i) Other monitoring requirements per contract between Program Administrator and Agency.

21. Verification of Recordation. Program Administrator obtains from escrow company verification of recording in Official Records, County of Orange, including list of instrument numbers for each and all Agency Loan recorded documents. Upon receipt, Program Administrator forwards recording details to Program Director.

22. Post-Closing. Post-closing the County Recorder causes to be sent to Agency the fully executed, recorded Agency Deed of Trust and Declaration.

C. Refinancing/Request for Subordination. For restrictions on refinancing refer to definitions under the General Information Section of this Manual. The form of a sample Subordination Agreement is attached hereto as Exhibit H and fully incorporated by this reference.

1. Affirmation of Subordination. All Requests for [Reaffirmation of] Subordination will be processed by the Program Administrator with any and all costs incurred to be paid directly to the Program Administrator at the time of processing by the Participant requesting subordination or re-affirmation of subordination. Please contact the Program Administrator directly for the current charge for this processing.

(a) Prior to the approval and execution of a [Reaffirmation of] Subordination Agreement, Program Administrator will require the following for review: (a) settlement statement, (b) updated preliminary title report, (c) appraisal used for the refinance, and (d) final, original Subordination Agreement (or Reaffirmation of Subordination Agreement) ready for signature with escrow instructions. Program Director and Program Administrator reserve the right to request additional information from Participant (or its refinance Lender), as necessary, to confirm that the First Trust Deed Loan, as refinanced, will be made in conformance with the Program Guidelines and the Agency's second lien position against the Property remains in such priority.

(b) At completion of the review, Program Administrator will make a determination if reaffirmation of the Agency's second lien position is acceptable and if approved will cause the Subordination Agreement to be executed. The executed Subordination Agreement will be forwarded to the requesting party, or designated agent, per escrow instructions along with a new Request for Notice identifying new First Trust Deed Loan with instructions for the Request for Notice to be recorded against the Property.

VI. LENDER PARTICIPATION.

A. Lender Training. All Lenders must sign a Lender Participation Agreement substantially in the form attached to this Manual as Exhibit E and enroll and attend Program Training for Lenders as conditions precedent to initial certification as an approved Lender in the Program.

Annual recertification will be available to Lenders. In addition, at Program Director's sole discretion, any Lender may be required to enroll and attend additional Program Training for Lenders as a condition to continued participation in the Program, as determined by Program Director.

B. Coordination with Program Administrator. Lenders shall coordinate Program requirements with the Program Administrator according to the Guidelines and this Manual. Program Procedures described in this Manual are designed to coincide with standard first mortgage loan processing and underwriting procedures that are in place at most mortgage lending institutions. Recognizing there are procedural variations among Lenders, the procedures outlined here are intended to serve as guidelines with respect to the sequence of events. However, since time frames are limited, it is recommended that Participating Lenders work closely with the Program Administrator to effectuate a timely and successful close of escrow.

C. Pre-Qualification of Applicant by Lender for First Trust Deed Loan. Conventional underwriting standards will be modified to recognize the Program assistance in determining Affordable Housing Cost, all other monthly housing expenses, and indebtedness ratios in connection with pre-qualifying applicants to the Program.

1. Participant to Obtain Maximum Allowable First Trust Deed Loan. In connection with evaluation and pre-qualification of Eligible Applicants, both Lender and applicant shall be aware that the Program requires each Participant to obtain the maximum supportable First Trust Deed Loan from Lender, in order to determine the amount of the Agency Loan (in no event exceeding \$240,000.)

D. Fees and Costs. Fees, costs, and other expenses incurred and/or associated with the Agency Loan, charged by the Program Administrator, Program Director, escrow, title, etc., shall be included in calculations used to prepare the Good Faith Estimate. Agency is not and shall not be financially responsible or liable for any out-of-pocket costs associated with application to, processing of, and/or closing the Agency Loan, although escrow, title, and closing costs are eligible for payment with Agency Loan proceeds. All such costs shall be included in the good faith estimate.

E. Certifications. Eligible Applicants and Lenders shall complete and execute any and all necessary Program documents and attest to their validity, completeness and truthfulness. Lender will be required to submit certifications that affirm that to the best of the Lender's knowledge material misstatements and/or material omissions are not associated with the Applicant Affidavit, supporting documents, Agency Loan, and other Program documents. If a Lender becomes aware of misstatements or omissions, whether negligently or willfully made, Lender shall notify in writing the Program Administrator and Program Director immediately. Program Director and/or Program Administrator, as applicable, shall take any appropriate action to enforce Program requirements.

F. Advisement to Eligible Applicants and Participants. Lender shall be aware and shall inform each Eligible Applicant (and Participant) of the requirements of this Program that all information provided shall be complete, factual, and truthful, as provided in Section V.B.5. above, and that civil and criminal penalties are provided by federal and California law if a person makes a false statement, misrepresentation, or omission of material fact, in order to apply to, become eligible for, and/or to obtain an Agency Loan under the Program.

G. Verifications. Lender shall verify that each Eligible Applicant, the applicable Property, and the First Trust Deed Loan mortgage transaction comply with the Program

requirements. In conjunction with Lender's standard verification process and pursuant to the Lender Participation Agreement between Agency and each applicable Lender, for each Participant that obtains an Agency Loan in conjunction with such borrower obtaining a First Trust Deed Loan, Lender shall undertake a reasonable investigation to verify that Program requirements have been satisfied. Lender shall verify these facts by executing the Lender Reservation Letter, and may verify these facts in any other reasonable, efficient manner, according to standard industry practices for processing mortgage loan applications.

H. Applicant Eligibility Requirements.

1. **Eligible Applicant Status.** Eligible Households may apply to participate in the Program and shall include Low to Moderate Income households who have not owned a present ownership interest in real property during the last three (3) years. In addition, Displaced Households and Displaced Homemakers (defined in next paragraph) who meet the income eligibility criteria may participate in the Program without regard to previous home ownership.

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

(b) To demonstrate compliance with this three (3)-year requirement, each applicant must complete and sign the Applicant Affidavit and provide copies of their last three (3) years signed federal tax returns and state tax returns, or satisfy one of the following alternatives:

(i) If applicant has filed the short form 1040A or 1040EZ for the last three (3) years, completes and signs the required Applicant Affidavit, but is unable to produce the signed returns, the Lender will accept a letter from the IRS verifying the filing status of the applicant. The letter should confirm that the applicant filed the 1040A or 1040EZ for the years in question.

(ii) If applicant filed the 1040 Long Form and cannot produce an original copy of the signed tax returns, then applicant can request a copy of the returns from the IRS by using IRS Request Form 4506. Applicant should allow forty-five (45) days for the copies.

(iii) In the event applicant was not obligated to file federal and/or state income tax returns for any of the preceding three (3) years, it will be necessary for Lender to obtain from applicant a completed and signed Income Tax Affidavit which is required in place of the above options, along with the Applicant Affidavit. The Income Tax Affidavit must be supported with documented proof of the reason for not filing taxes, whether federal, state, or both. The Income Tax Affidavit must also be supported by documented proof that applicant was a renter during the specified period (i.e. notarized letter from landlord or manager, canceled checks, or rent receipts).

(iv) When the Applicant Affidavit is submitted during the period between January 1 and April 15 and applicant has not yet filed a federal (and/or state) tax return(s) for the preceding year with the IRS or Franchise Tax Board, the lender may rely on an affidavit of the Applicant. The affidavit shall report that applicant was not entitled to claim deductions for taxes or

interest, on indebtedness, with respect to real property for the preceding calendar year. The affidavit must be forwarded to the Agency Program Director the Program Reservation Package.

(v) In the event the signed tax returns do show a deduction for interest or taxes on real property, or in the event the signed tax returns are not obtained, then the applicant becomes ineligible and in no event shall he/she obtain an Agency Loan.

2. Occupancy. Each Eligible Applicant shall understand and acknowledge that the Property will and shall remain the "Principal Residence" of Participant, continuously owned and occupied by Participant during the Term of the Agency Loan. Program Participants are required to submit an annual affidavit of occupancy and continuing Program compliance as a part of the Agency Loan implementation.

(a) Lender shall obtain from each Eligible Applicant the Applicant Affidavit that discloses and affirms applicant's intent to use the Property as his/her Principal Residence. This Applicant Affidavit further states that the Eligible Applicant is required to notify, and shall notify, Lender and Program Administrator if Property ceases to be Participant's Principal Residence.

3. Orange County Moderate Income Limits. Each Eligible Applicant's annual Gross Household Income shall not exceed 120% of median household income for the Orange County Metropolitan Area as published by the California Department of Housing and Community Development (HCD) and set forth in Exhibit F to this Manual. Low to Moderate Income Household income limits change from year-to-year and will be published by Program Director. Copies are available at either the Agency offices or through Program Administrator.

I. Fund Reservation. Program funds shall be reserved for forty-five (45) days upon issuance of a Reservation Letter by the Program Administrator.

1. Outside Closing Date. Failure of an Eligible Applicant to close escrow within such forty-five (45)-day period will result in forfeiture of Program participation unless extended by Program Administrator, as affirmed and approved by Program Director. An Eligible Applicant may submit a written request for an extension to Program Administrator to reserve funds longer than forty-five (45) days based upon circumstances beyond the control of the Eligible Applicant. Such request must be signed by the Eligible Applicant and Lender. In no event shall Program funds be reserved for more than ninety (90) days.

J. Re-Submissions of Returned or Rejected Applications. If an Applicant Affidavit has been returned or denied by Program Administrator or Program Director, any resubmission, if appropriate, any re-submittal by an applicant shall include all information that Program Administrator and/or Program Director identified necessary for further consideration of an application to the Program. No funds are or shall be reserved, held, or otherwise be construed in any respect as committed to an applicant (and/or an Eligible Applicant) unless, until and subject to submittal of a complete, accurate, and full package and subsequent issuance of a Reservation Letter by Program Administrator. Any Applicant Affidavit that is submitted a second (or subsequent) time will be reviewed in depth and a final disposition made by both Program Director and Program Administrator. Once an applicant has been initially rejected from the Program, funds for subsequent applications will depend upon availability of funds.

K. Representations and Warranties in Applicant Affidavit. Each Eligible Applicant's status is based on the information provided in and verified from the Applicant Affidavit. Program Administrator will issue the Reservation Letter based such information, as verified, as of the date such reservation is issued.

1. ***Change in Income within 45 Days of Reservation Letter.*** The Gross Household Income verified for the Reservation Letter is valid as long as the Agency Loan closes within forty-five (45) day period of such reservation provided that Participant has no new source(s) of income or liquid assets that were not previously reported.

2. ***Change in Income post-45 Days of Reservation Letter.*** If the Agency Loan does not close within 45 days and an extension is requested, **any additional income or liquid assets must be verified. If Gross Household Income exceeds the Program maximum, then the applicant is no longer qualified for the Program.**

3. ***Change in Marital Status post-Reservation Letter.*** If the Eligible Applicant experiences a change in marital status after issuance of the Reservation Letter and prior to a timely closing, then the new spouse must also satisfy the prior home ownership requirements contained in the Applicant Affidavit. Any income added to the Gross Household Income previously declared because of the new spouse shall be considered and may affect the validity of the Reservation Letter and the applicant's continued eligibility for the Program.

4. ***Lender Notification.*** Each Lender shall notify Program Administrator if it is aware of any change in the Eligible Applicant's income, liquid assets, or marital status.

5. ***Change in Home Ownership Status or Amount of Agency Loan.*** If an Eligible Applicant acquires a present Ownership Interest in real property prior to Agency Loan closing, all Program commitments shall be deemed revoked. If the total acquisition cost of the Property increases so as to require an increase in the amount of the Agency Loan, then the Reservation Letter and any other loan commitment document shall be deemed suspended pending and subject to Lender obtaining, processing, and submitting a new, updated Program Reservation Package to Program Administrator.

6. ***Changes in Physical Condition of Property.*** If an Eligible Applicant has a pending Reservation Letter and experiences a material change in condition of the Property he/she is purchasing (e.g., fire, natural disaster, destruction, environmental damage, etc.) the Reservation Letter is deemed suspended and Lender shall obtain, process, and submit a new Program Reservation Package to the Program Administrator.

(a) If the Eligible Applicant continues to qualify to participate in the Program, then Program Administrator will issue a revised Reservation Letter with the original expiration date, subject to extension(s) authorized by Program Director in his/her sole discretion.

7. ***Other Changes in Circumstances.*** Each Reservation Letter is issued by Program Administrator in reliance upon the Applicant Affidavit and Lender's representation in the Program Reservation Package that the requirements necessary to obtain an Agency Loan are met. Lender shall notify immediately Program Administrator in writing of any change in circumstances upon which the Reservation Letter was issued. If any other change of the circumstances upon which

the Reservation Letter was issued occur so that the Agency Loan to be issued will not meet Program requirements for an Agency Loan, then the Reservation Letter shall be deemed revoked.

L. Audit. Program Director and Program Administrator retain express authority to perform random audits of any Lender's records that pertain to any Agency Loan and Program Reservation Package.

M. Conflict of Interest. No Agency Loan shall be issued to a person, or the immediate family of a person, who is in a decision-making position relative to the Program or the issuance of an Agency Loan. This includes, but is not limited to, elected officials, officers, employees, staff and their immediate family members of the Agency, Program Administrator, or any Lender.

N. Refinancing. Refinancing of the First Trust Deed Loan will be permitted only upon express written approval by the Program Director, which pre-approval is and shall be a material prerequisite to any type of refinancing or modification of the First Trust Deed Loan and which approval shall be within the sole discretion of the Program Director. The structure of an approved refinancing of the First Trust Deed Loan may for a term less than 30 years, but the following business terms or structure for any proposed refinancing are strictly prohibited and will not be approved by Program Director: (1) no increase in the principal (except by the amount of reasonable closing costs for one pre approved re-financing as determined by Program Director); (2) first mortgage remains and continues fully amortizing, (3) no cash/equity withdrawal; (4) no variable interest rate; (5) no negative amortization in connection with such proposed refinancing; (6) no interest only payment structure, and (7) no subordination of the Agency Loan below second lien position.

EXHIBIT A

WELCOME LETTER AND INFORMATION SHEET
(Form)

Dear Homebuyer Assistance Program Applicant:

Thank you for your interest in the Costa Mesa Home Buyer Assistance Program. The Redevelopment Agency recognizes the difficulty a home buyer faces given the current cost of housing. The Agency has designed the Program to provide a subordinate loan subsidy to increase home ownership opportunities.

Enclosed you will find an Information sheet along with a Pre-Application Checklist. We strongly encourage you to thoroughly review the Information Sheet and complete the Checklist in order to determine if you may be eligible to participate in the Program. You may also wish to inquire about the Agency and City's Single Family Rehabilitation Grant and Loan Program (SFRGLP), to which you may be eligible to concurrently apply in connection with the purchase of Property.

If after completing the Pre-Application Checklist, you believe you meet the established criteria, the process for homeownership then includes the following steps:

1. Select a Lender from the enclosed Lender List (**only** Lenders on this list are approved to participate) and complete the application process to qualify for a First Trust Deed Loan from a Lender. You are required to qualify for the maximum, supportable First Trust Deed Loan you are eligible to secure from a Lender. The Lender you select will establish the actual amount of first mortgage you can afford and will help you find a mortgage that suits your needs.
2. The next step is to select a property to purchase. To assist you in locating a property, you may choose to employ a local real estate professional who can assist you in finding a home that meets your criteria. Your local real estate professional will also assist you in entering into a purchase and sale contract for your new home; however, you are responsible for disclosing to the seller in writing that you are in the process of application to the Program, that you are seeking an Agency Loan, and that your acquisition of the Property will be conditioned upon your obtaining an Agency Loan under the Program.
3. Following loan pre-qualification from your Lender and execution of a purchase/sale contract to buy an eligible Property, your Lender will submit a Program Reservation Package on your behalf. If approved and contingent upon funds being available at the time of submission, the Agency's Program Administrator will then provide you with a Reservation/Commitment Letter informing you of conditional approval and of the deadline date by which you must close escrow on an Agency Loan.

Please be aware that all funds are distributed on a first-come, first-served basis and funds are limited. If you have any questions regarding the Costa Mesa Homebuyer Assistance Program, please call either (i) Program Administrator, Amerinational Community Services Group, at (562) 927-6686 or (ii) the Agency's Homebuyer Assistance Hotline at (714) 754-4892.

Sincerely,

Alma Penalosa
Management Analyst

- 84 -

COSTA MESA REDEVELOPMENT AGENCY HOME BUYER ASSISTANCE PROGRAM



What is Costa Mesa's Home Buyer Assistance Program?

The Home Buyer Assistance Program provides second mortgages of up to \$240,000 to eligible home buyers for purchase of a home in the City of Costa Mesa. This second mortgage helps bridge the gap between the first mortgage and the purchase price of the home, less the required not less than 3% down payment (and not more than 20% down payment.) The City-wide program requires that participating homebuyers live in, as owner/occupants, the residence they purchase. The residence may be a single-family detached home, condominium or town home. Occupancy during the Term of the Agency Loan is and shall remain limited to compliance with the HQS occupancy standard.

Who is eligible for the program?

To participate, applicants must meet the following requirements:

- 1) Applicants cannot have had ownership interest in residential real estate in the last three (3) years, unless applicant qualifies as a 'displaced homemaker' per the Department of Housing and Urban Development's definition. (Please contact Agency for additional information on 'displaced homemaker'.)
- 2) Applicants' Gross Household Income cannot be greater than 120% of the Area Median Income for their appropriate family size. Current income limits are as follows:

Household Size	Maximum Income*
1	\$ 70,600
2	\$ 80,700
3	\$ 90,800
4	\$100,900
5	\$109,000
6	\$117,000

- 3) Applicants must have enough funds in savings (or other liquid assets) to contribute not less than 3% (and not more than 20%) of the purchase price as a down payment in addition to related closing costs (usually 2-3% of the purchase price.) **Non-recurring closing costs may be included in the Agency's second mortgage so long as the total loan amount does not exceed the maximum loan amount.**
- 4) Applicants must be planning to purchase a home not to exceed \$540,000* in price in the City of Costa Mesa. ***Income limits and purchase price are subject to change.**

How is the loan paid back?

Repayment of the Agency Loan is fully deferred for the first thirty (30) years so long as the Participant continues to own and occupy the home and comply with the Program. The Agency Loan is due earlier if 1) the property is resold; 2) the house is no longer owner-occupied; 3) the house is refinanced for more than the current first mortgage balance or otherwise refinanced without the Agency's consent; or 4) there is a transfer of ownership. In such cases when the Agency Loan is due earlier, the Agency shares in the appreciation of the home in an amount equal to its original percentage of the purchase price. This Equity Sharing Payment is due in lieu of interest. (See example on reverse side of this sheet) There are other scenarios where the loan may be due sooner. Please review the Program Guidelines for further details and examples of loan repayment.

How do I apply?

The first step in applying is to meet with an approved lender and a real estate professional to qualify for the first mortgage and to find a suitable home for purchase. Once qualified for a first mortgage and after locating a property to purchase, your lender will assist you with requesting a reservation of funds from the Agency's Program Administrator, Amerinational Community Services, Inc. who will determine your eligibility and process approval of the loan. **Please be aware that applications are funded on a first come/first served basis and funds are limited for this Program. For a list of approved lenders or for further information, please call the City's Home Buyer Hotline at (714) 754-4892.**

The Agency Loan is structured as a forty-five year second mortgage loan with deferred repayment of the principal amount for the first thirty years. If during the first thirty years of ownership, the Property is resold, refinanced, title transferred or default of the affordability provisions occur (hereafter referred to collectively as "resale"), Agency will share in the appreciation of the property through the Equity Sharing Payment. Examples illustrating second mortgage repayment schedules and appreciation sharing are described in detail below.

Appreciation Sharing and Speculation Restrictions

Instead of carrying interest on the second mortgage, the Agency shares in the appreciated value of the residence at time of resale. Appreciation is the increase in the value of the residence between the purchase price and the resale price. Equity is the amount of money each party has invested in the purchase of the residence including the Agency's second mortgage and the Home Buyer's down payment. Examples of appreciation sharing are included below:

Original Purchase Price (value) of the residence:	\$500,000
Home Buyer first mortgage (First Trust Deed Loan):	\$285,000
Agency Loan - second mortgage:	\$200,000
Home Buyer Equity - $\geq 3\%$ ($\leq 20\%$) down payment:	\$ 15,000
Agency's percent of value is 40% ($\$200,000 \div \$500,000$).	

Years 1 – 30

Assuming there is no repayment of the Agency's second mortgage principal during the initial thirty (30) year deferral period, the Agency's share of appreciation at resale during the first thirty years is based on the Agency's percent of value at time of purchase. Example:

Resale Price:	\$800,000
Appreciation from original Purchase Price (\$800,000 –\$500,000):	\$300,000
Agency Share of Appreciation (40% x \$300,000 appreciation):	\$120,000
Agency original Loan Principal (second mortgage)	\$200,000
Total Due Agency at Resale:	\$320,000
(\$200,000 Principal of the second mortgage + \$120,000 share of appreciation)	

Years 30-45

Monthly amortized payments based on a twenty year amortization schedule of the original principal loan amount shall commence in the 31st year and be fully repaid on the 45th anniversary of the Agency Loan. During these fifteen years, 1/15th of the Equity Sharing Payment amount due as the Agency’s share of appreciation will be forgiven per year with full forgiveness to occur at the end of year 45. If resale occurs during these years, the remaining unpaid balance of the Agency Loan and any remaining, not forgiven share of appreciation become immediately due and payable.

Example: Home Buyer is in year 37 and has been making monthly payments on the principal and to date has repaid \$100,000 of the Principal. If resale occurs at this time, the remaining unpaid Principal and any remaining share of appreciation would become payable. Example:

Resale Price:	\$800,000
Agency original Loan Principal (second mortgage):	\$200,000
Balance of Agency second mortgage: (\$200,000 - 100,000 repaid)	\$100,000
Remaining Share of Appreciation (7/15ths (47%) of original 40% forgiven)	\$ 63,600
Total due to Agency at Resale:	\$163,600
(\$100,000 remaining Principal + \$63,600 (53% of \$120,000) remaining unforgiven share of appreciation)	

For additional examples of repayment, please see the Program Guidelines.

For additional information, please contact:

Costa Mesa Redevelopment Agency
 77 Fair Drive • P.O. Box 1200
 Costa Mesa, CA 92626-1200 • (714) 754-4892

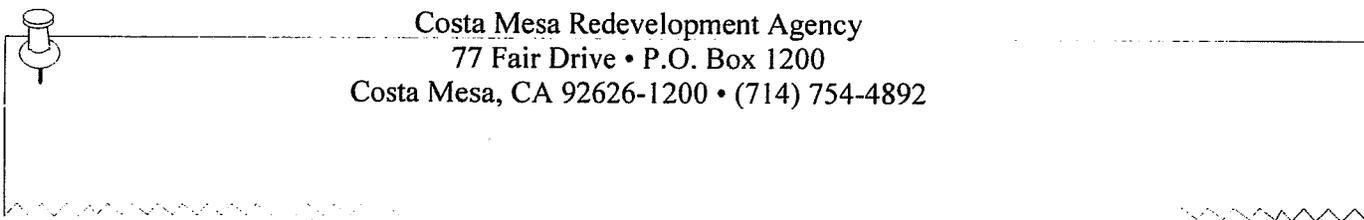


EXHIBIT B

**PRE-APPLICATION CHECKLIST
(Form)**

**COSTA MESA REDEVELOPMENT AGENCY
HOME BUYER ASSISTANCE PROGRAM**

This Pre-Application Checklist is only for purposes of preliminary self-qualification and is intended to be used **ONLY** as guide for a potential applicant to determine if they may be eligible for the Costa Mesa Redevelopment Agency's Home Buyer Assistance Program. Capitalized terms used in this checklist are defined in the Program Guidelines and Program Manual, copies of which are available at the Agency offices. This checklist should be completed by the potential applicant **PRIOR** to contacting any approved Lender to obtain a First Trust Deed Loan.

This Pre-Application Checklist does not establish, expressly or by implication, that a potential applicant will be eligible for, or will be approved for, an Agency Loan, nor does it guarantee that funding will be available at the time a Reservation Request Package is submitted.

This checklist does not need to be submitted to the Program Director and is for the sole purpose of preliminary self-qualification by the potential applicant.

I. PROGRAM ELIGIBILITY

A. Income Eligibility

1. Gross Household Income: \$ _____

Defined as the combined gross annual income for ALL members of the household who will establish as their principal residence the Property to be purchased under the Program.

Note: Income information will be verified by both the Lender for the First Trust Deed Loan and Agency's Program Administrator during the formal application process.

2. Household Size: _____

"Household" is defined as all persons who will establish as their principal residence the property to be purchased under the Program. The occupants may be a single family, one person living alone, two or more families living together or any other group of related or unrelated persons who share living arrangements. Occupancy during the Term of the Agency Loan is and shall remain limited to compliance with the HQS occupancy standard.

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

2008 INCOME LIMITS ¹	
Household Size	Maximum Allowable Income (120% AMI)
1	\$70,600
2	\$80,700
3	\$90,800
4	\$100,900
5	\$109,000
6	\$117,000

Locate your household size on the above Income Limits chart. Is your Gross Household Income less than the maximum allowable income limit?

Yes _____ No _____

IF NO, THEN YOU ARE NOT ELIGIBLE FOR THIS PROGRAM.

B. Credit Rating

Do you have a minimum credit rating of "fair"?

Yes _____ No _____

IF NO, THEN YOU ARE NOT ELIGIBLE FOR THIS PROGRAM.

C. Sufficient Funds Available

Total all personal funds you have available in the form of liquid assets (savings, checking account funds, and time deposits which are not subject to penalty for early withdrawal). Do NOT include any gifts or loans.

\$ _____

Downpayment Requirements

Purchase Price	Required Minimum Downpayment of 3%	Maximum Allowable Downpayment of 20%
\$300,000	\$9,000	\$60,000
\$350,000	\$10,500	\$70,000
\$400,000	\$12,000	\$80,000
\$450,000	\$13,500	\$90,000
\$500,000	\$15,000	\$100,000
\$540,000	\$16,200	\$108,000

¹ Income Limits are provided by the Department of Housing and Urban Development (HUD) and are subject to change without notice

By looking at the Downpayment Requirements table above, determine the required 3% minimum downpayment and maximum 20% downpayment for the Property you'd like to purchase using this Program. Compare your total personal funds that you calculated on the previous page to this amount. Do you have enough liquid assets available for the minimum 3% downpayment up to the maximum 20% downpayment, inclusive of the estimated additional 2% – 3% of Purchase Price to pay for closing costs?

Yes _____ No _____

IF NO, THEN YOU ARE NOT ELIGIBLE FOR THIS PROGRAM.

D. Liquid Assets

Taking the total of your available liquid assets that you calculated in Section C above and deducting the amount that you anticipate to use for the downpayment and closing costs, is the remaining balance greater than six (6) months of your total anticipated housing costs (mortgage, taxes, etc.) plus \$10,000?

IF YES, THEN YOU ARE NOT ELIGIBLE FOR THIS PROGRAM

E. Prior Ownership

Have you had any Ownership Interest in any real property within the past three years?

Yes _____ No _____

IF YES, THEN YOU ARE NOT ELIGIBLE FOR THIS PROGRAM UNLESS YOU MEET THE DEFINITION OF A 'DISPLACED HOME MAKER' AS DEFINED BELOW.

In order to participate in the Costa Mesa Redevelopment Agency's Home Buyer Assistance Program you must be not have owned real property within the three (3) years preceding application. The ONLY exception to this rule is for those individuals who meet the Department of Housing and Urban Development's (HUD) definition of a 'displaced home maker'. A "displaced homemaker" is defined as an individual who is an adult who has not worked full-time, full-year in the labor force for a number of years but has, during such years, worked primarily without remuneration to care for the home and family and may be unemployed or underemployed and experiencing difficulty in obtaining or upgrading employment.

Note: You will be required to submit supporting documentation (divorce decree and other information requested by the Program Administrator and/or Agency) prior to final loan approval. Final determination of eligibility under this definition is at the sole discretion of the Agency and the Program Administrator.

II. PROPERTY INFORMATION (only complete if Property has been identified)

A. Location

Address of Property to be purchased: _____

Is Property located in the City of Costa Mesa, excluding the unincorporated areas?

Yes _____ No _____

IF NO, THEN THIS PROPERTY IS NOT ELIGIBLE FOR THIS PROGRAM.

B. Purchase Price

Is the Purchase Price of the Property greater than \$540,000?

Yes _____ No _____

IF YES, THEN THIS PROPERTY IS NOT ELIGIBLE FOR THIS PROGRAM.

C. Type of Property

Is this property you wish to purchase a single family home, condominium or town home?

Yes _____ No _____

IF NO, THEN THIS PROPERTY IS NOT ELIGIBLE FOR THIS PROGRAM.

D. Primary Residence

Do you intend to make the property to be purchased through this Program your primary residence?

Yes _____ No _____

IF NO, THEN THIS PROPERTY IS NOT ELIGIBLE FOR THIS PROGRAM.

III. REPAYMENT TERMS

A. Agency Loan

Do you understand that the financial assistance the Agency is providing is in the form of a deferred loan that is secured by a second trust deed on the property and must be paid back? There is no forgiveness of the loan principal under any circumstances.

Yes _____ No _____

IF NO, THEN YOU SHOULD REFER TO THE PROGRAM GUIDELINES AND SPEAK TO YOUR LENDER OR THE AGENCY FOR CLARIFICATION PRIOR TO PROCEEDING.

Do you understand that if you purchase a home using this Program, that you will not be able to withdraw equity from the home in the future without first paying off the Agency loan and any applicable appreciation share?

Yes _____ No _____

IF NO, THEN YOU SHOULD REFER TO THE PROGRAM GUIDELINES AND SPEAK TO YOUR LENDER OR THE AGENCY FOR CLARIFICATION PRIOR TO PROCEEDING.

Do you understand that you will not be able to transfer the ownership or title of this property to another person without first paying off the Agency loan and any applicable appreciation share?

Yes _____ No _____

IF NO, THEN YOU SHOULD REFER TO THE PROGRAM GUIDELINES AND SPEAK TO YOUR LENDER OR THE AGENCY FOR CLARIFICATION PRIOR TO PROCEEDING.

Do you understand that up until year 30, you will be required to pay an appreciation share to the Agency in addition to the original principal amount? This appreciation share will be equal in percentage to the amount the Agency contributed at the original time of purchase.

Yes _____ No _____

IF NO, THEN YOU SHOULD REFER TO THE PROGRAM GUIDELINES AND SPEAK TO YOUR LENDER OR THE AGENCY FOR CLARIFICATION PRIOR TO PROCEEDING.

IV. PRELIMINARY SELF-QUALIFICATION

If you have completed this pre-application checklist to the best of your ability and have determined that you may be eligible, the next step would be to contact one of the approved Lenders for the Program. A Lender will determine your eligibility for a First Trust Deed Loan and will instruct you in the next step necessary to submit a formal Application Affidavit to obtain a Reservation Letter for participation in the Program.

EXHIBIT C

**APPLICANT AFFIDAVIT
(Form)**

for Application to the Homebuyer Assistance Program

COSTA MESA REDEVELOPMENT AGENCY

HOME BUYER ASSISTANCE PROGRAM

NOTE: ALL BLANKS ON THIS FORM MUST BE COMPLETED. THERE ARE IMPORTANT LEGAL CONSEQUENCES TO THIS APPLICANT AFFIDAVIT. READ IT CAREFULLY BEFORE SIGNING.

Note: Singular references (I, my, am) will, for the purpose of clarity, also apply to plural references (we, our, are) in this document. Capitalized terms in this Applicant Affidavit are defined in the Program Guidelines.

1. I the undersigned, as part of my application for the Homebuyer Assistance Program from the Costa Mesa Redevelopment Agency, as representations and warranties that I understand will be relied upon by the Agency, Program Director, Program Administrator, my Lender, and as a material inducement to the Costa Mesa Redevelopment Agency to issue a Reservation Letter and ultimately an Agency Loan to me, state the following:

I certify that the following are:

	APPLICANT	CO-APPLICANT
a. Legal Name:	_____	_____
Social Security Number:	_____	_____
b. Current Residence:	_____	_____
	_____	_____
c. Telephone: (work):	_____	_____

2. The Property being purchased is a single-family home, condominium or townhome located in the City of Costa Mesa at the following address:

3. I certify that the Property will be established, owned, occupied, and used as my principal place of residence within thirty (30) days after the date the Agency Loan is funded. I certify that when I begin occupancy at the Property and as I continue occupancy at the Property I

will comply with and continue to comply with the HQS occupancy standard. I will I certify that the Property will not be used as an investment property, rental property (whether short or long-term), vacation home, second home, business home, recreational home, or any other use and that not more than fifteen percent (15%) of the area of the Property will be used in a trade or business by any member of my household (or any other person.)

4. I certify that I will, within ten (10) days of any change in status of #3 above, notify the Costa Mesa Redevelopment Agency in writing if the Property ceases to be my principal residence.
5. If the Agency Loan application is for homebuyer assistance on a newly constructed home, I certify that the Property has not, and will not, be occupied prior to Agency Loan closing.
6. Unless I have been independently and previously qualified by the Program Administrator as a "displaced household" or a "displaced homemaker", I understand that I am not eligible for an Agency Loan from the Costa Mesa Redevelopment Agency under this Program if I individually or together with another person or persons had a present Ownership Interest in real property within three (3) years prior to date of my application and this Applicant Affidavit. I also understand that I cannot have a present ownership interest in property between the date of this Applicant Affidavit and closing for the Agency Loan. For this purpose, a principal residence includes a single family residence, condominium, or townhome (and expressly excludes duplexes, multi-family apartments, mobilehomes, recreational vehicles, or other types of vehicles or structures that may be occupied.) For this purpose, present ownership interest means ownership by any means, whether outright or partial, including property subject to a mortgage or other security interest. An Ownership Interest also means a fee simple ownership interest by joint tenancy, tenancy in common, a tenancy by the entirety, a life estate interest, or land lease subject to specific Program restrictions. I certify that I have listed below all places of residence, whether owned or not, for a three-year period from date of application.

Previous Residences (Over the Preceding three-year Period):

Note: All answers of "Other" must be fully explained; use additional paper if necessary.

Address of Residence	Indicate Whether Residence was Owned, Rented or Other	Beginning/Ending Date of Residence
_____	Owned <input type="checkbox"/> <input type="checkbox"/> Rented	
_____	Other _____	From _____ / To _____
_____	Owned <input type="checkbox"/> <input type="checkbox"/> Rented	
_____	Other _____	From _____ / To _____
_____	Owned <input type="checkbox"/> <input type="checkbox"/> Rented	
_____	Other _____	From _____ / To _____

Name, Address, and Telephone of the Owner or Landlord who can verify each residence listed above which was not owned by the Applicant:

Name	Address	Telephone
_____	_____	_____
_____	_____	_____
_____	_____	_____

7. I certify that I am required to, and will submit, true and complete copies of my actual signed federal and state tax returns as filed for the preceding three (3) tax years or such other written verification that is acceptable to the Program Administrator.
8. I certify that no portion of the funds for, or financing of the acquisition of, the Property is, or will be, provided from the proceeds of a gift, bequest, or loan (other than the First Trust Deed Loan), or a qualified mortgage bond or a qualified veteran's mortgage bond. No person related to me (as defined by applicable federal or state laws and regulations) has, or is expected to have, an interest as a creditor in the mortgage loan being acquired for the property. I represent and agree there will be no co-signor for my First Trust Deed Loan from Lender or for the Agency Loan.
9. I understand and agree that if an Agency Loan is issued to me, it is non-transferable, non-assignable, and non-assumable by any person or entity.
10. I understand and agree that I may seek financing for my First Trust Deed Loan only from an approved Lender under the Program.
11. I understand that I am not eligible to participate in the Program unless my annual Gross Household Income does not exceed the stated limits for a Low to Moderate Income Household in Orange County for my household size.
12. I certify that my current annual Gross Household Income, including the income of all adult persons intending to occupy the Property, is \$ _____.
13. I understand and have been informed about the Agency and City's Single Family Rehabilitation Grant and Loan Program (SFRGLP), which program may be available for certain rehabilitation improvements to the Property and for which I may be eligible to concurrently apply in connection with the purchase of Property.
14. I understand that the decision to provide a First Trust Deed Loan as the first mortgage for my acquisition of the Property is completely and solely within the discretion of the Lender to whom I apply for a loan. The Costa Mesa Redevelopment Agency plays no role in any Lender's decision to make a first mortgage loan or in the amount of that loan.
15. I agree to pay cancellation fees, as may be required, if I withdraw my Program application.
16. I acknowledge that I will incur, and Program Administrator will charge, loan processing fees that will be paid from Agency Loan proceeds. Further, I agree to pay and authorize payment of such charges/fees from Agency Loan proceeds.

17. I acknowledge and understand that this Applicant Affidavit will be relied upon for the purpose of determining my eligibility to participate in the Program and obtain an Agency Loan. I acknowledge that a material misstatement or a material omission of information, fraudulently or negligently made in this Applicant Affidavit, or in any other statement, representation, or warranty made by me in connection with my application to participate in the Program and obtain an Agency Loan may constitute a federal, state and/or local violation punishable by a fine and/or denial of my application for an Agency Loan.
18. I acknowledge and agree that if I have made, or if I make, any material misstatement or omit to disclose a material fact, fraudulently or negligently made, in this Applicant Affidavit, or in any other statement, representation, or warranty made by me in connection with my application to participate in the Program and obtain an Agency Loan, then I will subject myself to, and may be held liable for, and or prosecuted under any applicable federal, state, and/or local criminal and/or civil laws or regulations relating to fraud, misrepresentation, false or misleading statements or other legal remedies related to information provided to apply to, become eligible for, or participate in the Program.

Initials of Applicant/Participant

Initials of Program Director

19. I am aware that the Costa Mesa Redevelopment Agency, a public entity, will rely on and use this Applicant Affidavit to determine my eligibility for the Program and its decision whether or not to provide me an Agency Loan. I have had the right to seek independent legal advice from my attorney of choice with respect to the advisability of making and signing this Applicant Affidavit. I have read the foregoing Applicant Affidavit and the information provided by me and all facts set forth herein are true of my own personal knowledge, that I have not intentionally omitted material information in this Applicant Affidavit, and I declare such information has been provided under penalty of perjury.

Executed on this ____ day of _____, 20__ in the City of _____, County of Orange, State of California.

PRINT NAME

SIGNATURE

Dated: _____

PRINT NAME

SIGNATURE

PRINT NAME

SIGNATURE

Dated: _____

PRINT NAME

SIGNATURE

EXHIBIT D

**RESERVATION LETTER
(Form)**

**COSTA MESA REDEVELOPMENT AGENCY
HOME BUYER ASSISTANCE PROGRAM**

Applicant Name(s):

NAME	RELATIONSHIP	AGE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

All Other Household Members:

NAME	RELATIONSHIP	AGE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Property Address: _____

Bedroom/Bathroom Configuration: _____

Other Living and/or Sleeping Areas (such as living room, dining room, family room, etc.) [to confirm compliance with HQS occupancy standard]: _____

Purchase Price for Property: _____

Borrower Downpayment (Cash) (must be not less than 3% or more than 20% of Purchase Price and may be inclusive of non-recurring closing costs not to exceed 4% of Purchase Price.)

Estimated First Trust Deed Loan from Lender: _____
(must be maximum supportable first mortgage that applicant may qualify)

Estimated Agency Loan Amount/Second Mortgage: _____
(not to exceed \$240,000 including any SFRGLP third trust deed loan)

Estimated Closing Costs: _____

Lender Name and Address: _____

Contact Person: _____ Contact Phone: _____

Anticipated Closing Date: _____

NOTE: Please see page Program Manual for the required documents that must accompany this document.

NOTE: Program Administrator will be further evaluating and underwriting the proposed Agency Loan on behalf of the Costa Mesa Redevelopment Agency. Program Administrator must receive a Complete Copy Package at the same time the Lender submits the application for the First Trust Deed Loan to their underwriter.

Before Property transfer, an independent third party inspector at the expense of the Eligible Applicant/buyer (or Seller, but at no expense to Agency) shall inspect the Property for health and safety hazards.

Person with access to Property: _____

Contact Person: _____ Contact Phone: _____

PRINT LENDER NAME

SIGNATURE

Dated: _____

PROGRAM ADMINISTRATOR

SIGNATURE

Dated: _____

[Reservation (form) Letter continued on next page]

PRINT APPLICANT NAME

SIGNATURE

Dated: _____

PRINT APPLICANT NAME

SIGNATURE

PRINT NAME

SIGNATURE

Dated: _____

PRINT NAME

SIGNATURE

EXHIBIT E

**LENDER PARTICIPATION AGREEMENT
(Form)**

**COSTA MESA REDEVELOPMENT AGENCY
HOME BUYER ASSISTANCE PROGRAM**

This **LENDER PARTICIPATION AGREEMENT** ("Agreement") is made and entered into as of the ____ day of _____, 20____, by and between the **COSTA MESA REDEVELOPMENT AGENCY, CITY OF COSTA MESA, CALIFORNIA** ("Agency") and _____, a _____ ("Lender"). Capitalized terms used in this Agreement are defined in the Program Guidelines.

RECITALS

This Agreement is made with reference to the following recitals, which are incorporated as a substantive part hereof.

WHEREAS, Agency has established the Homebuyer Assistance Program ("Program") as a means of providing mortgage assistance in the form of an "Agency Loan" to qualified Low to Moderate Income Households for the acquisition of eligible housing as set forth in the Program Guidelines and Program Manual provided to the Lender and on file with the Agency; and

WHEREAS, the Program is administered by the Agency's Program Director, with day-to-day administrative assistance provided by the Program Administrator under contract to the Agency; and

WHEREAS, Lender wishes to participate in the Program for the provision of First Trust Deed Loans to Eligible Applicants for the acquisition of eligible residential Property; and

WHEREAS, Lender acknowledges receipt of the Program Guidelines and Program Manual and agrees to perform the services of a qualified Lender; and

WHEREAS, Lender represents and warrants to Agency that it is a federally regulated and insured financial lending institution or a licensed mortgage broker with a valid and current license from the California Department of Real Estate, a true and accurate copy of which Lender must provide to the Agency as a condition precedent to the effectiveness of this Agreement.

NOW, THEREFORE, in consideration of the promises set forth herein, the parties agree as follows:

1. Agency hereby authorizes Lender to participate as a qualified Lender in the Program for receipt and processing of applications and the provision of First Trust Deed Loans to Eligible Applicants who will become Program Participants upon closing for an Agency Loan.

2. Lender will make information regarding the Program available to any and all potential applicants to the Program.
3. Lender will obtain from each applicant all documents and information required for the application and for participation in the Program and receipt of an Agency Loan as set forth in the Program Guidelines and/or the Program Manual and as otherwise directed by the Agency and/or the Program Administrator.
4. Lender will process and review Program applications in order to determine eligibility for the Program (preliminary loan approval) based upon preliminary indications of Gross Household Income, Purchase Price for Property, no prior Ownership Interests in other real property, and other Program eligibility factors.
5. Lender will perform its level of investigation and verification customarily performed for underwriting first lien mortgages in the ordinary course of its business and will conduct such reasonable investigation as is necessary to certify that an Eligible Applicant has satisfied all requirements for participation in the Program, including, but not limited to, planned owner-occupancy, liquid assets, compliance with HQS occupancy standard, and Gross Household Income.
6. Lender represents and warrants to Agency that it is familiar with and shall comply with the Program Guidelines and procedures as set forth in the Program Manual applicable to the Program and established by Agency. Lender hereby further agrees to comply with provisions of applicable Federal and State law.
7. Lender agrees to attend and participate in all established training and orientation sessions for the Program as required by the Program Director. Only Lender's employee(s)/staff who have participated in and completed the training and orientation sessions are eligible to be designated and utilized by Lender in handling any Agency transactions. Lender shall designate one or more qualified persons in writing to Agency's Program Director, who have completed the training and orientation sessions, and who shall be the sole designated person(s) to work on underwriting and processing of transactions related to the Program. If Lender desires to change the staff person(s) designated for Agency related transactions, Lender shall first notify Program Director and each person shall attend and complete the training and orientation sessions before any change in assigned staff. Lender represents and warrants to Agency that it has and will maintain sufficient qualified professional staff required to perform the services of a Lender in the Program.
8. Lender will charge Eligible Applicants/Participants in the Program applying to Lender for First Trust Deed Loans only those reasonable fees and costs as would be charged to a potential borrower applying for first trust deed mortgages not provided in connection with the Program.
9. Lender will provide each Eligible Applicant with an Applicant Affidavit in the form attached to the Program Manual, Exhibit C, and a Disclosure Statement as required by applicable State and/or Federal law, explain the contents of these documents to each borrower/applicant, and require each Eligible Applicant to execute and to acknowledge receipt of these documents.

10. Lender hereby agrees that it will immediately report to Program Director all information which it may receive during the life of the Lender's First Trust Deed Loan which indicates that a misrepresentation of fact or omission of fact may have been made in applying for an Agency Loan or that may affect Participant's continued eligibility for Program participation.
11. This Agreement shall remain in full force and effect until terminated. Either party may terminate this Agreement, without cause, upon thirty (30) days written notice to the other. In addition, Agency may immediately terminate this Agreement and prohibit Lender from further participation in the Program upon Lender's failure to comply with the terms and conditions of this Agreement, the Guidelines, or the Program Manual and upon written notice from Program Director. Such notice may be transmitted by personal service, by mail or by facsimile transmission followed immediately by transmittal by mail. No amendment to this Agreement shall be effective unless in writing and signed by both parties hereto. Termination of this Agreement by the Agency or Lender does not alleviate Lender's responsibilities as provided for under this Agreement in connection with First Trust Deed Loans previously funded and/or Agency Loans funded prior to termination.
12. Whenever notices are required to be given pursuant to the provisions of this Agreement, the same shall be in written form and shall be served upon the party to whom addressed by personal service as required in judicial proceedings, or by deposit of the same in the custody of the United States Postal Service, postage prepaid, addressed to the parties as follows:

To Lender:

 Attn: _____
 Tel: _____
 Fax: _____
 Email: _____

To Agency:

Costa Mesa Redevelopment Agency
 77 Fair Drive, P.O. Box 1200
 Costa Mesa, CA 92628-1200
 Attn: Home Buyer Assistance Program Director
 Tel: (714) 754-5692
 Fax: (714) 754-5330
 Email: apenalosa@ci.costa-mesa.ca.us

12. Lender agrees to and shall indemnify, defend, hold harmless, and pay Agency and City of Costa Mesa, and their elected officials, officers, employees, agents, and attorneys from any and all claims, causes of action, injuries or damages arising out of negligence and intentional misconduct on the part of Lender, its officers, directors, employees, agents, contractors, and assigns. This indemnity shall include reasonable costs and attorney's fees incurred in defending any action covered by this provision.
13. All acts of Lender and all others acting on behalf of Lender relating to the performance of this Agreement, shall be performed as independent contractors and not as agents, officers or employees of Agency or City of Costa Mesa.

14. The individuals executing this Agreement on behalf of Lender each represent and warrant that they have the legal power, right and actual authority to bind Lender to the terms and conditions hereof and that all necessary action has been duly taken by Lender to enter into this Agreement.

IN WITNESS WHEREOF, Agency and Lender have executed this Lender Participation Agreement as of the day and year written below.

LENDER

Date: _____, 200__

By: _____
Printed Name: _____
Title: _____

Date: _____, 200__

By: _____
Printed Name: _____
Title: _____

**COSTA MESA REDEVELOPMENT AGENCY,
CITY OF COSTA MESA, CALIFORNIA**, a public
body, corporate and politic

Date: _____, 200__

By: _____
Printed Name: _____
Title: _____

EXHIBIT F

ORANGE COUNTY LOW TO MODERATE INCOME LIMITS²

COSTA MESA REDEVELOPMENT AGENCY

HOME BUYER ASSISTANCE PROGRAM

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

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

¹ Income limits are subject to change, generally annually.

² Income limits are subject to change, generally annually.

104-

EXHIBIT G

**DETERMINATION OF GROSS HOUSEHOLD INCOME
(Title 25 California Code of Regulations §6914)**

COSTA MESA REDEVELOPMENT AGENCY

HOME BUYER ASSISTANCE PROGRAM

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

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

- B. The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities;
- (7) Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;
 - (8) All regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family, spouse, or other person whose dependents are residing in the unit subject to 2.e., below;

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

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

- (6) relocation payments made pursuant to federal, state, or local relocation law;
- (7) foster child care payments;
- (8) the value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is in excess of the amount actually charged the eligible household;
- (9) payments received pursuant to participation in the following volunteer programs under the ACTION Agency:
 - A. National Volunteer Antipoverty Programs which include VISTA, Service Learning Programs and Special Volunteer Programs.
 - B. National Older American Volunteer Programs for persons aged 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Program to Assist Small Business Experience, Service Corps of Retired Executive (SCORE) and Active Corps of Executives (ACE).

EXHIBIT H

**SUBORDINATION AGREEMENT
(Form)**

**COSTA MESA REDEVELOPMENT AGENCY
HOME BUYER ASSISTANCE PROGRAM**

**Recording Requested By and
When Recorded Mail To:**

COSTA MESA REDEVELOPMENT AGENCY
P.O. BOX 1200
77 FAIR DRIVE
COSTA MESA, CA 92628-1200

Order No. _____
Escrow No. _____

(Space above for Recorder)
This document is exempt from the
payment of a recording fee pursuant to
Government Code Section 6103.

SUBORDINATION AGREEMENT

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY, BUT NOT LOWER THAN SECOND PRIORITY, THAN THE LIEN OF SOME OTHER OR LATER RECORDED SECURITY INSTRUMENT.

This **SUBORDINATION AGREEMENT** ("Agreement") made this ____ day of _____ by and between _____ ("Owner") owner of that certain real property commonly known as _____ and more fully described in Exhibit "A", attached hereto and incorporated herein by this reference, ("Property") and the Costa Mesa Redevelopment Agency, ("Beneficiary"), present owner and holder of that certain deed of trust and note first hereinafter described.

WITNESSETH

A. Owner executed a deed of trust, dated _____, to Costa Mesa Redevelopment Agency, as trustee, covering the Property to secure a note in the sum of \$ _____, dated _____ in favor of Beneficiary, which deed of trust ("Beneficiary's Deed") was recorded on _____ in the county of Orange in book _____ page _____, (or Instrument No. _____ in the Official Records of said county.

B. Owner has executed, or is about to execute, a deed of trust and note in the sum of \$ _____, dated _____, in favor of _____, hereinafter referred to as "Lender", payable with interest and upon the terms and conditions described therein, which deed

of trust is to be recorded concurrently herewith ("Lender's Deed".)

C. It is a condition precedent to obtaining said loan that Lender's Deed shall unconditionally be and remain at all times a lien or charge upon the Property prior and superior to the lien or charge of Beneficiary's Deed.

D. Lender is willing to make said loan provided Lender's Deed securing the same is a monetary lien or charge upon the Property prior and superior to the lien or charge of Beneficiary's Deed and provided that Beneficiary will specifically and unconditionally subordinate the monetary lien or charge of Beneficiary's Deed to Lender's Deed.

E. It is to the mutual benefit of the parties hereto that Lender make said additional loan to Owner; and Beneficiary is willing that Lender's Deed securing the same shall constitute a monetary lien or charge upon the Property which is unconditionally prior and superior to the lien or charge secured by Beneficiary's Deed.

NOW THEREFORE, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of such consideration is hereby acknowledged, and in order to induce Lender to make the additional loan above referred to, it is hereby declared, understood, and agreed as follows:

1. The deed of trust in favor of Lender, as to said additional loan as well as all other obligations recited as being secured thereby, and any renewals or extensions thereof, shall unconditionally be and remain at all times a lien or charge of the Property, prior and superior to the lien or charge of Beneficiary's Deed.

2. Lender would not make is additional loan above described without this subordination agreement.

3. This Agreement shall be the whole and only agreement with regard to the subordination of Beneficiary's Deed to Lender's Deed and shall supersede and cancel, but only insofar as would affect the priority between the deeds of trust hereinbefore specifically described, any prior agreements as to such subordination including, but not limited to, those provisions, if any, contained in Beneficiary's Deed, which provide for the subordination of the lien or charge thereof to another deed or deeds of trust or to another mortgage or mortgages.

4. Beneficiary declares, agrees, and acknowledges that:

(a) It consents to and approves to (i) all provisions of the note evidencing said additional loan and the deed of trust securing same, and (ii) all agreements, including but not limited to any loan or escrow agreements, between Owner and Lender for the disbursement of the proceeds of Lender's loan.

(b) Lender in making disbursements pursuant to any such agreement is under no obligation or duty to, nor has Lender represented that it will, see to the application of such proceeds by the person or persons to whom Lender disburses such proceeds and any application or use of such proceeds for purposes other than those provided for in such agreement or agreements shall not defeat the subordination herein made in whole or in part;

(c) It intentionally and unconditionally waives, relinquishes, and subordinates the lien or charge of Beneficiary's Deed in favor of the lien or charge upon said land of Lender's Deed, as to said additional loan as well as all other obligations recited therein as being secured thereby, and understands that in reliance upon and in consideration of this waiver, relinquishment and subordination specific loans and advances are being and will be made and, as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this waiver, relinquishment and subordination; and

(d) An endorsement has been placed upon the note secured by Beneficiary's Deed that said deed of trust has been subordinated by this instrument to the lien or charge of Lender's Deed.

NOTICE: THE OBLIGATION SUBORDINATED BY THIS AGREEMENT CONTAINS A PROVISION PROHIBITING THE PERSON OBLIGATED ON THE REAL PROPERTY SECURITY FROM USING ANY PORTION OF SAID LOAN FOR ANY OTHER PURPOSE OTHER THAN IMPROVEMENTS TO THE PROPERTY.

_____ Signature of Beneficiary	_____ Signature of Owner
_____ Printed Name of Beneficiary	_____ Printed Name of Owner

(ALL SIGNATURES MUST BE NOTARIZED)

IT IS RECOMMENDED THAT, PRIOR TO THE EXECUTION OF THIS SUBORDINATION AGREEMENT, THE PARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT THERETO.

STATE OF CALIFORNIA)
) ss
COUNTY OF _____)

On _____ before me, _____, Notary Public, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose names(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal

SIGNATURE OF NOTARY PUBLIC

STATE OF CALIFORNIA)
) SS
COUNTY OF _____)

On _____ before me, _____, Notary Public, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose names(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal

SIGNATURE OF NOTARY PUBLIC

EXHIBIT "A"

LEGAL DESCRIPTION OF THE PROPERTY

(to be inserted)

[letter on Program Administrator letterhead]

EXHIBIT I

**ESCROW INSTRUCTIONS FOR AGENCY LOAN
(Form)**

**COSTA MESA REDEVELOPMENT AGENCY
HOME BUYER ASSISTANCE PROGRAM**

[insert date]

Escrow Company
[insert address]
Attn: Escrow Officer
Ref: Escrow No. _____

Title Company
[insert address]
Attn: Title Officer
Order No. _____

Re: *Homebuyer Assistance Loan of \$ _____ to _____
from Costa Mesa Redevelopment Agency for Acquisition of
_____, Costa Mesa, California;*

Ladies and Gentlemen:

The Costa Mesa Redevelopment Agency ("Agency") has adopted and in place the Costa Mesa Homebuyer Assistance Program ("Program"). The undersigned, Amerinational Community Services Group, is the Program Administrator ("Program Administrator") for the Program. In connection with the Program the Agency will provide to _____ [vesting to be determined and inserted] (together, "Participant") a subordinate purchase money loan ("Agency Loan") to assist in Participant's acquisition of certain real property located at _____, Costa Mesa California, _____ ("Property"). Participant is also obtaining a First Trust Deed Loan from _____ ("Lender"), which loan will close concurrent with the Agency Loan. By separate cover Lender will provide you instructions regarding that transaction and acquisition of the Property by Participant.

In connection with the Agency Loan Participant has executed, among other documents (1) deed of trust ("Agency Deed of Trust") dated as of _____, in favor of the Agency, securing (2) promissory note in the original principal amount of _____ Dollars (\$ _____) ("Agency Note"), (3) Declaration of Conditions, Covenants and Restrictions between Participant and Agency ("Declaration"), and (4) Request For Notice of Default

Escrow Agent
Title Company
[insert date]
Page Two

with respect to the First Trust Deed Loan ("Request for Notice"), all of which documents affect the Property, legally described in Exhibit A attached and incorporated hereto.

Enclosed are, as noted, either (i) the following original, fully executed documents, or (ii) true and complete copies of the fully executed documents that the Agency holds and will retain in its files (collectively, "Documents"):

- (1) Agency Deed of Trust (original);
- (2) Agency Note (true copy);
- (3) A disclosure statement executed by Participant ("Disclosure Statement") (true copy);
- (4) Agency Regulation Z Disclosure Statement ("Regulation Z Statement") (true copy);
- (5) Declaration (original);
- (6) Request For Notice (original); and
- (7) Homebuyer Loan Agreement dated _____ between Participant and Agency ("Agency Loan Agreement") (true copy).

The Agreement requires that certain conditions precedent be satisfied prior to authorizing the recordation of the original Documents. You will be advised by Program Administrator, by telephone with confirmation by facsimile, when the outstanding conditions precedent have been satisfied.

When (i) you have received confirmation that all conditions precedent have been satisfied, (ii) your Escrow No. _____ is in a position to close (as well as the First Trust Deed Loan), and (iii) you are willing and able to issue the title policy and endorsements described in the following paragraph, you are to record in the following order: (1) Grant Deed, (2) deed of trust for the First Trust Deed Loan, (3) Agency Declaration, (4) Agency Deed of Trust, (5) Request for Notice (provided you have first inserted the appropriate recording information in the document) in the Official Records of Orange County, California.

IF FOR ANY REASON THE DOCUMENTS ARE NOT RECORDED ON OR BEFORE _____ YOU SHALL RETURN TO THE UNDERSIGNED ALL DOCUMENTS DELIVERED TO YOU BY THE AGENCY UNLESS YOU ARE NOTIFIED BY THE UNDERSIGNED TO THE CONTRARY.

You are to record the Agency's original Documents only when you are willing and able to issue your 1970 ALTA extended coverage Lender's Policy of Title Insurance (amended 10/17/70) with CLTA Endorsement Nos. 100 and _____, naming the Agency as the insured, in the amount of \$ _____, insuring that the Agency Deed of Trust constitutes a second lien on the Property, subject only to (i) non-delinquent taxes, (ii) First Trust Deed Loan, (iii) exceptions

Escrow Agent
Title Company
[insert date]
Page Three

_____ shown on Schedule B of that certain Preliminary Title Report dated as of
issued by title company, and (iv) Agency Declaration.

IMMEDIATELY AFTER THE RECORDATION OF THE AGENCY'S ORIGINAL
DOCUMENTS IN ACCORDANCE WITH THIS LETTER, YOU ARE TO PROMPTLY
ADVISE PROGRAM ADMINISTRATOR BY TELEPHONE AT () _____ OF
THE RECORDING OF THE AGENCY'S ORIGINAL DOCUMENTS AND THE
INSTRUMENT NUMBER OF EACH SUCH DOCUMENT.

Please return a conformed copy of each original, recorded Agency Document to Program
Administrator at the address set forth above as soon as possible following recordation and deliver one
original and a copy of the title policy to the same address.

All closing costs relating to the Agency Loan, including the cost of the Agency's lender's
title policy referenced above, are to be paid by Participant. Kindly acknowledge your receipt of these
instructions and your agreement to comply with the same by signing and returning to the undersigned
the enclosed copy of this letter. Notwithstanding our failure to receive the return copy of this letter,
your act of recording any of the Documents shall constitute evidence of your agreement to issue the
Agency's lender's policy of title insurance and all applicable endorsements pursuant to the foregoing
instructions.

Thank you for your assistance and cooperation with this escrow.

Very truly yours,

AMERINATIONAL COMMUNITY SERVICES
GROUP

Enclosures

cc: Costa Mesa Redevelopment Agency, Program Director

AGREED TO AND ACCEPTED THIS _____ DAY OF _____, 20__.

_____ ESCROW COMPANY

By: _____

Its: _____ TITLE COMPANY

By: _____

Its: _____

Exhibit A
to Form of Escrow Instructions for Agency Loan

LEGAL DESCRIPTION OF PROPERTY

A.P.N. _____

ADDRESS: _____, Costa Mesa, California

THE LAND DESCRIBED HEREIN IS SITUATED IN THE CITY OF COSTA MESA,
COUNTY OF ORANGE, STATE OF CALIFORNIA AND DESCRIBED AS FOLLOWS:

[insert legal description]