



City of Morgan Hill / HouseKeys Below Market Rate (BMR) Ownership Program Application Guide



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1.INTRODUCTION

Buying, owning, and selling an Affordable Below Market Rate (BMR) Ownership Unit differs in many ways from buying, owning, and selling a market rate. It is important that the buyers and sellers of BMR Ownership Units understand the rules and procedures of the Program fully.

HouseKeys is the City of Morgan Hill's Affordable Housing Program Administrator. This Program Guide includes the guidelines, policies, and procedures that comprise the affordable homeownership program for below market rate (BMR) homes.

The Program Guide and other relevant information (e.g., Ordinance procedures and income limits) will be amended and updated from time to time, so long as such rules, policies and procedures do not violate any affordable housing laws. All proposed changes are subject to approval by the City Council prior to implementation.

Updates to this Program Guide and other relevant information will be posted on the HouseKeys Website

Please contact the City or HouseKeys regarding any conflicts between this Program Guide, the Developer's Affordable Housing Agreement, the owner's BMR Agreement, and/or the City's recorded documents.

Please contact HouseKeys with any questions or concerns regarding this document or any other question regarding the City's affordable housing program:

Online:<http://www.housekeys.org>

Online: <https://www.myhousekeys.com>

Email: programs@housekeys.org

Phone: 1-877-460-KEYS (5397)







Address: 17575 Peak Avenue, Morgan Hill, CA 95037



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2. ONLINE WEB PORTAL DASHBOARD OVERVIEW

		
Information Profiles	Tools & Planning	Program Center
Information Profiles are used to gather important facts that determine your eligibility and qualification. These profiles will be used by the Program Administrator to complete your Program application and determine your eligibility to participate in Program activities.	There are many calculations involved in an Affordable Housing Program. From calculating the income category of your household, to determining your maximum restricted rent price and utility allowance, it's important to understand the math behind these Programs.	All Application, Opportunities, Opportunity Drawings, and Participation Activities are captured in your Program Center. As soon as you complete your initial registration, this is where you'll spend the most time participating in the Program.
		
Program File Cabinet	Program Marketplace	Community Center
As you start to apply for and participate in Program activities, your file cabinet is where you'll track progress, exchange information, and communicate with Program administrators.	The Program marketplace is where you can shop for ownership, rental, and financing opportunities.	The online community center will have a classroom, a bulletin board, and chatroom so you can stay educated, informed and in touch with other Program participants and stakeholders.







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3. ESTABLISHING AN ACCOUNT (HOUSEHOLD PROFILE) IN THE MYHOUSEKEYS (WWW.MYHOUSEKEYS.COM)


The following five (5) actions are the initial steps needed to establish your household's affordable housing account.

REGISTRATION PROCESS	ACTION OR MILESTONE
1. Initial Signup	 <p>Start out by completing our simple registration form. This step collects very basic information from you to establish a User Account, including your name, contact information, and your household size and income.</p>
2. Complete the Registration Wizard	 <p>The next step includes additional details about your address, household members, income profiles, and preference criteria. The preference criteria are described on Step 5 of the Registration Wizard. Completion of the Wizard will create a summary of your household and provide you with access to additional features of the Administrator Platform.</p>
3. Browse the Marketplace	 <p>The Marketplace allows you to shop for Ownership, Rental and Finance Program opportunities that interest you. Make sure to read the Program Profile and get an understanding for how it works, the intent, the rules and the process.</p>
4. Request an Application I.D.	 <p>The Application I.D. allows the Program Provider and Administrator to identify your household as a prospective applicant household. It also puts you on the notification list to receive information and updates.</p>



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<p>5. Find an Opportunity and Enter an Opportunity Drawing</p>		<p>Each Opportunity is placed into an Opportunity Drawing that allows HouseKeys to facilitate multiple applicant interest. Application I.D.s are prioritized through a Random Selection Process (Lottery) or by Time and Date Stamp (First-Come-First-Serve).</p>
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4. HOUSEHOLD INFORMATION PROFILES

HouseKeys holds orientation classes to introduce the Program and help applicant Households organize their application files and prepare for the application process. The application packet is broken down into 10 **Household Information Profiles**:

#	Information Profile Name	Description	Purpose
1	Location Profile	Where you live and where you work	The address where you live and work is an important factor in determining your eligibility. The county you presently live in, or may be moving to, is often used to determine how to categorize your household.
2	Member Profile	The people who live in your housing unit	The number of people in your household determines your household size and household size is used to determine income category.
3	Income Profile	Documenting the total income of all household members.	Income documentation is required by all household members who are 18 years of age or older
4	Expense Profile	Documenting monthly expense obligations	It's important to ensure that your total monthly expenses show that you can afford the monthly rent for the unit you are applying for
5	Asset Profile	Deposit Funds and other Assets	You need to document your rental deposit funds. Please note that Assets are included in income calculations using the income shown on statements or calculations used by the Program Underwriter. See Asset Limits below.
6	Liability Profile	Your Debt	Your debt adds to monthly expenses and the maximum monthly rent that you can afford is an important qualification factor
7	Credit Profile	Your Credit Score	All three credit bureaus (Equifax, Experian, and TransUnion) are evaluated to ensure you meet minimum credit requirements



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8	Public Record Profile	Collections, Liens, Bankruptcies and Foreclosures	These are evaluated to determine whether or not there is any risk that the finalization of lease signing or meeting any of the property management requirements.
9	Demographics Profile	Applicant Characteristics	Demographic information is critical to ensure fair housing compliance and to track how Program Providers are meeting their housing goals.
10	Program Preference Profile	Program Factors that determine Applicant Priority	While all applicants may apply for a housing program, applicants that live and work where the program is located are prioritized in many jurisdictions.

5A. APPLICATION PROCESS (ORIENTATION, PRE-APPLICATION, AND PREFERENCES)

The application process is summarized below and on the following pages:

ORIENTATION

- All applicants, co-applicants, married couples, domestic partners, and any person that can or will be on title, must complete the Orientation before being eligible to participate in an Opportunity Drawing. Any exceptions to this rule will be posted in the Opportunity Drawing details. Applicants can sign up for an orientation class on the HouseKeys website.

PRE-APPLICATION AND APPLICATION ID ASSIGNMENT

- Request an Application ID in the Program Center
- Answer all of the Pre-Application Questions in the Request Wizard
- The applicant will either receive a pass or fail rating based on the information in the pre-application wizard
- If the applicant passes, an Application ID will be assigned immediately. If there is a system delay or malfunction, Application IDs can take up to 10 business days to be assigned.
- An Application ID does not mean you are eligible or approved for the Program. It provides the applicant Household with the ability to enter Opportunity Drawings.

PREFERENCES AND RANKING

In all instances, the live in Morgan Hill / work in Morgan Hill preference (described in Section 9) will be used and verified by HouseKeys during the application process. Applicant Households that meet the stated preference criteria will be assigned a higher ranking. Once



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the preferred Household list is exhausted, HouseKeys will begin processing the files for the non-preference households.

Continued next page



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5B. APPLICATION PROCESS (OPPORTUNITY DRAWINGS)

Affordable Ownership Opportunities are marketed through an Opportunity Drawing (i.e., lottery). Applicant Households enter an Opportunity Drawing using their Application ID number.

OPPORTUNITY NOTIFICATION

- A notification email will be sent out to Application ID holders. When a new Opportunity Drawing is released it will be posted in the Program Center
- Follow the instructions and review the terms in each Drawing Notification. It is the applicant Household's responsibility to follow all instructions in each Opportunity Drawing, based on the method used. Each Opportunity Drawing announcement will include the selection method, file submission instructions, and one or more deadlines that the applicant Household must meet.

OPPORTUNITY DRAWING ENTRY

- Once the applicant reviews the Opportunity Drawing information and is certain that he/she can meet ALL listed requirements, the applicant can follow the instructions to Enter Drawing
- Applicant must complete Authorization Form for verification and sharing information with Lender
- Applicant must complete the Intent to Abide Form to confirm that the applicant understands the Program Requirements
- Applicant Households can only apply for one Opportunity Drawing at any one time. If an applicant Household has entered more than one drawing, the lowest ranked submission will be chosen. Applicant Households are allowed to opt out of any drawing as long as the "opt out form" is submitted before an applicant Household enters another drawing.
- If there is another Opportunity Drawing available at the same time, the applicant can opt out of one Opportunity Drawing to enter another, if it is done before the Opportunity Drawing submission deadline.
- If a household applies for two opportunities at the same time, and obtains two priority numbers, the applicant will be assigned the lower priority number.
- In some cases, the Opportunity Drawing will remain open until all applicable units are sold. Anyone who enters their Application ID into an Opportunity Drawing after the first deadline will be added to the end of the list using the time and date stamp of their Opportunity Drawing entry.
- Ranking and file request numbers are issued to set the processing order for each Opportunity Drawing. A new ranking and file request number will be issued every time an applicant Household participates in a new Opportunity Drawing. Ranking, file request, and Application ID numbers are not transferable.



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5C. APPLICATION PROCESS (OPPORTUNITY DRAWING METHODS)

When an Opportunity becomes available, HouseKeys uses the methods outlined below to determine the order in which Application IDs and files will be ranked and organized for review.

METHOD 1: LOTTERY SELECTION AND ASSIGNMENT

All applicant Households that enter their Application ID numbers into an Opportunity Drawing by the deadline will receive an Application ID ranking. If a Lottery is held, Application IDs will be chosen at random and assigned an Unfiltered Ranking number based on the order in which they were drawn.

Each Application ID on the Unfiltered Ranking list will be re-ordered to account for the Live/Work Preference and a new ranking list Filtered by Live/Work Preference will be created. The Unfiltered Ranking number becomes the tie breaker between households with the same preference category.

Please note: Applicant Households who do not meet the Occupancy Standard will be assigned a lower priority number, regardless of lottery placement, or other eligibility criteria (e.g., First Time Home Buyer [FTHB]).

METHOD 2: FORM SUBMITTAL (DATE & TIME STAMP) TIE-BREAKER

All applicant Households that enter their Application ID numbers into an Opportunity Drawing by the deadline will receive an Application ID ranking. The Unfiltered Ranking in this method is based on the time and date stamp that their entry form was completed.

As with Method 1, the Unfiltered Ranking number list is re-ordered based on Live/Work Preference and the Unfiltered Ranking number is used as the tie breaker between households with the same preference category.

Please Note: Applicant Households that do not meet the Occupancy Standard will be ranked last.



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5d. APPLICATION PROCESS (LOAN REQUIREMENTS, APPLICATION FILE REQUEST, AND APPLICATION COMPLETION)

MORTGAGE LOAN REQUIREMENTS

The applicant Household must obtain a loan pre-approval from an Administrator-approved Lender to enter an Opportunity Drawing. Applicant Household must have acceptable payment-to-income ratios and show enough liquid assets (e.g. cash) to successfully close on the proposed home purchase. Any down payment assistance or closing cost assistance that will be used will need to have a written pre-approval from the program provider as well.

- Applicants must obtain a mortgage pre-approval letter, on mortgage company letter, with loan officer information, including their National Multistate License System (NMLS) ID number and packet must include:
 - Uniform Residential Loan Application and Uniform Underwriting and Transmittal Summary
 - Verification of Employment and Verification of Assets
 - Credit Report and Automated Underwriting System Findings (e.g. Desktop Underwriter Findings)

APPLICATION RANKING AND FILE REQUESTS

- The Opportunity Drawing Terms and Notifications will indicate when, where and how the Program Application Package needs to be submitted
- Applicants must provide a complete Program Application Package, including exhibits and the supporting documents listed on the Document Checklist, to HouseKeys by the deadline stated in the Opportunity Drawing Notification.

PROGRAM APPLICATION PACKAGE COMPLETION

- Once written confirmation has established that an applicant has met all requirements after credit bank background check, the Administrator will request the full application package for Underwriter review.
- Applicants must provide and return all necessary documents to underwrite the file to the Administrator within 3 business days.
- Documentation needs to be dated within 30 days of submission.
- Applicants/Co-applicants, and or household members who submit inaccurate information, altered documentation, or false documentation or certifications, will be disqualified.
- Once all documents are received, the Applicant will be provided with a Submission ID which will be their file in line for Processing and Underwriting



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5e. APPLICATION PROCESS (APPLICATION REVIEW, AND UNDERWRITING)

APPLICATION REVIEW

- The application package will be reviewed, and if complete, will be submitted to the underwriter for review
- If the application is incomplete, applicants will be given written notice to respond with any file updates or missing items
- Applications that remain incomplete after notifications and applicable grace periods, will not be processed or forwarded to the Underwriter for final review

APPLICATION UNDERWRITING

- The Underwriter will complete the review and issue a Program Eligibility and Qualification Certification (AKA "Approval Letter").
- It is important to note that the Program Underwriter may request additional items from the applicant. If the applicant does not respond within the grace period, or a denial is issued, the Underwriter will move to the next Submission ID holder.
- If approved, the Administrator will notify the landlord of the outcome so that the applicant can move on with the leasing documentation and lease/contract signing as described in the next section.

Changing an Application after Submission

No Application changes shall be allowed after an application is submitted and after an application deadline has passed unless the change is (1) the removal of an applicant, (2) the addition of an applicant's Spouse or Domestic Partner or a new Household member in the case of an adoption or new guardianship; (3) an update of income qualification, such as a new job or a job that has ended; or (4) correction of technical errors, such as current phone number or other non-qualifying information.

An application for a BMR Unit must be reviewed and approved for income qualification within one hundred and twenty (120) days prior to the Close of Escrow of a BMR Unit



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5e. APPLICATION PROCESS (APPEAL)

APPEAL

- If the applicant does not agree with the Processor or Underwriter decision, the applicant Household will have 3 business days to appeal. The applicant Household will need to submit clear and sufficient documentation, along with an appeal form that details why they feel the decision is inaccurate, within the timeframe given.
- Administrator Management will review the Appeal and all documentation.
- Administrator will contact the applicant regarding the status of the appeal approximately 7 business days from the date the complete Appeal Package was submitted. Administrator may require additional time as will be indicated during the status notification
- Administrator is unable to hold properties for households in the application or appeal process. Administrator will move on to the next Application ID holder after the initial appeal review



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6. BELOW MARKET RATE OWNERSHIP PRICING AND CITY'S PURCHASE OPTION

The purpose of the Below Market Rate (BMR) program is to provide long-term affordable homeownership opportunities for low and moderate-income households. Households that purchase a BMR home will be required to sign affordable housing documents to ensure the home remains affordable, and the homeowner occupies the home, for the entire restricted term (generally 45 years). Homeowners can sell their home at a market rate price at the end of the restricted term (generally the 46th year).

How Properties are Priced for this Planning Period

Under the current housing planning period (as of August 2018 through 2023), developers earn points for building affordable units that can be sold to low and moderate-income households. New construction residential development units will be priced using a 30 to 35% affordability percentage and prices that range from 81% of Median Income to 110% of Median Income. These homes will be made available to Households whose incomes fall into one of two categories: Median Income (100% of AMI) and Moderate Income (120% of AMI).

	Price Category 1	Price Category 2
Price Level	81% of the Median Income	110% of the Median Income
Eligible Purchaser Household	Household earning up to 100% of the Median Income	Household earning up to 120% of the Median Income

As agreed to in the affordable housing documents, a homeowner may choose to sell the BMR home during the term of the restriction. The City (or Administrator) will either purchase the BMR home for the Maximum Restricted Resale Price or assign the BMR home to another eligible buyer for purchase at the Maximum Restricted Resale Price.

The City is not obligated to exercise its Option to Purchase but the seller is obligated to give the City the option to do so.



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7. THE APPLICATION FILE STRUCTURE & APPLICATION CRITERIA

Program Eligibility and Qualification Criteria

The primary role of a Program Administrator is to determine the eligibility and qualification of applicant Households. A Program Processor serves the role of gathering the documents needed to evaluate the application and a Program Underwriter reviews the application to determine if it meets program requirements.

It is important to understand that there is a lot of information needed to determine whether an application meets all the program requirements. The application criteria used to determine whether an applicant Household will be approved fall into one of two categories:

- **Program Eligibility Criteria:** These are standards that define the characteristics of the target households who are best served by the program and help the program provider meet its intended goals. These standards often follow legal definitions and published documentation requirements. Underwriters evaluate Program Eligibility Criteria to determine if households “check eligibility boxes” that include, but are not limited to, residence address, employment address, household size requirements, total household income requirements, and whether an applicant meets the legal standard to be defined as a first-time homebuyer. Program Underwriters need to consider program eligibility for up to three years before the application date and up to a year after the estimated close of escrow date¹.
- **Program Qualification Criteria:** Once it is determined that an applicant is eligible for the program, the Program Underwriter must also make sure that the home purchase is affordable for the applicant and that they are mortgage and home-purchase ready. In addition to requiring applicants to attend first-time homebuyer classes, an underwriter will evaluate the application to ensure successful and sustainable homeownership.

¹ “Up to three years” speaks to the First-Time Homebuyer Status that is typically verified using 3 years of tax returns. Since Total Household Income is projected forward, it’s important to understand that the Program Underwriter is considering income circumstances going forward one year.



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8. FIRST-TIME HOMEBUYER EDUCATION AND TITLE REQUIREMENTS

First-Time Homebuyer Education Workshop Requirement

All applicants who will take title to the property must attend and complete a first-time homebuyer in-person education workshop and receive a certificate of completion from a HUD and Administrator-approved First-Time Homebuyer Education Provider before going into contract on a BMR Unit. A copy of the certificate of completion is required and certificates will be accepted for up to two years after completion.

Title Requirements

All adult Household members must appear as an owner or co-owner on the BMR Unit title. They also must co-sign for any purchase loan (unless they are a non-borrowing spouse) and sign all affordable housing documents (as defined on page 2) for the BMR Unit with the following exceptions:

1. Legal dependents of titleholders as claimed on the most recent federal income tax return or legal minor children of titleholders. Spouses or Domestic Partners are not considered dependents;
2. Household members younger than age 24 who are the child of a titleholder who will reside in the BMR Unit as their primary residence, regardless of being named as a dependent on the federal tax form of a titleholder; and
3. Recent immigrants with insufficient credit history as defined as a person who has been in the United States for 2 years or less as supported by entrance documentation or a sworn statement and lender documentation of the reason for a loan denial, including a copy of applicant's credit report.



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9. ELIGIBILITY AND PREFERENCE CRITERIA FOR OWNERSHIP OF BMR UNITS

The City has established a priority system for allocating the limited number of affordable ownership units. Priority shall be given to income eligible residents who live in Morgan Hill or employees of companies located within the City limits.

The preference system will be used to establish a ranking of applicants. An eligible household will be ranked according to where they live or work. While an applicant who lives or works within the city limits will have priority over an applicant who does not, residency/employment status is not a requirement for the Program, and all individuals and households may apply. Households comprised of applicants who do not reside or work in Morgan Hill may occupy a BMR unit if there are no eligible Morgan Hill residents or workers on the eligibility list for occupancy.

BMR PREFERENCE CRITERIA	
Priority: Live in City	Must currently live and must have lived in Morgan Hill for at least 6-months*
Priority: Work in City	Must currently work at a business located in Morgan Hill at least 20-hours per week, and held position for at least 6-months* *This category includes employees of the Morgan Hill School District even though their physical office or school building may be located in San Jose

*Eligibility will be evaluated at the time of opportunity drawing submission and verified again prior to occupancy



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9b. OCCUPANCY STANDARDS FOR BMR UNITS

Applicant/Co-Applicants must occupy the property as their principal residence. This means that the Applicant/Co-Applicants must use the property as their primary place of residence and the property must be owner-occupied upon purchase for the life of the deed restrictions. Use of the property for additional ownership purposes, including temporary leases, sub-leasing or room rentals are not allowed under the program and will trigger immediate action.

To ensure that the City's limited BMR homes are used efficiently, a household must be of a size equal to the number of bedrooms in the BMR unit. Pursuant to fair housing laws, the maximum occupancy allowed in a BMR unit is two people per bedroom, plus one additional person. The table below shows the minimum and maximum household size based on the number of bedrooms. In some cases, an exception to the minimum standard may be made where no other qualified buyers are remaining in the Opportunity Drawing or within 30-days from the time that the first file is requested from Opportunity Drawing entrants.

The City's BMR Administrator will verify household occupancy once per year for the life of the 45-year BMR Agreement between the City and the homeowner(s).

Note: Maximum Household size is subject to change per property management or Affordably Housing Agreement documents.

BMR OCCUPANCY STANDARDS		
Number of Bedrooms	Minimum Household Size	Maximum Household Size
One	1	3
Two	2	5
Three	3	7
Four	4	9
Five	5	11



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9c. INCOME ELIGIBILITY CRITERIA

Income Eligibility is based on household size (number of persons in the household) and whether a household's income is below income category limits published annually by the California Department of Housing and Community Development (HCD) on their [HCD website](#) as well as the Program Website. These resources should be used to determine the income percentage and income category that is applicable to your household. **Note: The following income categories may vary for a particular development.**

Morgan Hill presently defines the three income types most often used in their affordable homeownership program

- "Lower-Income Household" means a household whose household income does not exceed eighty percent (80%) of the area median income applicable to the County
- "Median-Income Household" means a household whose household income does not exceed one hundred percent (100%) of the area median income applicable to the County
- "Moderate-Income Household" means a household whose household income does not exceed one hundred twenty percent (120%) of the area median income applicable to the County

It is very important for the applicant Household to know BOTH:

- Applicant Household Income as a percentage of the published County Median Income (calculated by dividing Household Income by the published Median Income Amount) applicable to your household size
- Whether or not applicant Household Income is below the published income category limit applicable to your household size (e.g. Extremely Low, Very Low, Low, Median, or Moderate)

Income earned from assets, such as dividends, interest, rental income, business income, etc., is included in the household's annual income pursuant to the [Code of Federal Regulations](#), Title 24, Part 5 income inclusions (§ 5.609). Income calculation is also guided by [California Code of Regulations](#), Title 25, Chapter 6.5 Program Operations, Gross Income (§ 6914). To qualify for the City BMR Program, your household's combined gross annual income cannot exceed the maximum income limit for your household size, as established by the HCD. All household members ages 18 or older must have their income verified. Household members that do not work or will not have any income in the next 12 months must complete a zero-income affidavit.

Note: The income categories for a particular development may vary in accordance with the Affordable Housing Agreement.



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9d. ASSET LIMITATION CRITERIA

In addition to meeting the income limit, there are restrictions on the amount of assets that a household may have to be eligible for the City BMR Program. For households applying to be an owner of a BMR unit, the limit is 50% of household AMI plus the down-payment up to 20% of the BMR price, post-closing (after the close of escrow). So for example, the asset limitation for a 4-person household purchasing a 3-bedroom moderate income home with a 20% down payment would be approximately \$185,000 where AMI is \$150,000 and the BMR price is \$550,000².

ASSET LIMITATION EXAMPLE		
Asset limit = 50% of household AMI plus the down-payment up to 20% of the BMR price		
Maximum Household Income	Example Purchase Price	Example Asset Limit
\$150,000	\$550,000	\$185,000
50% = \$75,000	20% = \$110,000	\$75,000 + \$110,000

The City will review household income and assets for all owner-occupants, temporary occupants, and other occupants, regardless of such household member’s interest in purchasing or occupying a BMR home. To determine total household assets, HouseKeys will review the household’s total assets according to monthly financial statements and/or other valuations. A six-month average will be calculated just prior to Program application to determine eligibility and avoid applicant “asset dumping” (asset liquidation or transfer to other parties). Assets held in IRS-recognized retirement accounts (401-k’s, IRA’s, etc.) are not included for the purpose of determining whether an Applicant meets the Program asset limits. However, retirement and insurance payments will be used to determine gross household income.

There is a minimum loan amount of 70% of the purchase price. So, for example, with a Sales Price of \$550,000 the first loan amount cannot be lower than \$385,000. All-cash purchase escrows will not be allowed.

² Numbers are rounded for simplicity. 20% of the 550,000 BMR Home Purchase Price = \$110,000; 50% of the \$150,000 Example for Median Income = \$75,000; \$110,000 + \$75,000 = \$185,000 in total liquid assets allowed as projected to be remaining after close of escrow.



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9e. FIRST-TIME HOME BUYER CRITERIA

To be eligible for the City's BMR homeownership program, all household members on Title must be a first-time homebuyer, except as provided below. A first-time home buyer (FTHB) is an individual who has NOT had an ownership interest in a home in the three years immediately preceding their application date, except as follows:

- (1) A displaced homemaker who, while a homemaker, owned a home with his or her spouse or resided in a home owned by the spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive twelve-month period and who has been unemployed or underemployed, experienced difficulty in obtaining or upgrading employment and worked primarily without remuneration to care for his or her home and family; or
- (2) A single parent who, while married, owned a home with his or her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant; or
- (3) An existing BMR homeowner who no longer meets the occupancy standards in these guidelines and otherwise qualifies to purchase a larger or smaller BMR home at the time of re-application.

Notwithstanding the forgoing, the following interests shall not by themselves, disqualify an applicant from falling within the definition of first time home buyer:

- Applicants who own a mobile home are not considered home owners under the BMR program and are eligible to participate. However, if the mobile home unit is not sold and is retained by the homeowner, the property will be included in asset income calculations along with any rental income.
- Ownership in timeshares.
- Beneficiary of a trust for which the trustor/trustee is still living.
- Ownership of shares in a limited equity co-op.



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9e. FIRST-TIME HOME BUYER CRITERIA (CONTINUED)

To verify FTHB status, HouseKeys will review 3 years of federal tax returns to confirm that the applicant has not claimed any of the tax deductions associated with homeownership (e.g. deductions of mortgage interest or property tax payments). If not legally obligated to file, the applicant must complete a Jurat explaining the reason along with supporting documents. HouseKeys will also review a credit report for mortgage loans and perform title searches to confirm the applicant is not an owner of record on any existing properties for at least 3 years. The applicant must not be on title for any housing unit at all, whether they live in the unit or not. Other documentation may be requested to determine first time homebuyer status.

9f. FORMAL DEFINITION OF THE TERM “HOUSEHOLD” (PRIMARY APPLICANT)

The United States Census Bureau uses a series of terms to determine the definition of a household. The basic meaning of Household is an occupied housing unit. A Householder (Primary Applicant) is the person whose name the housing unit is rented to or owned by. Members of the household share familial ties, living space, expenses, debts and/or assets with the Householder.



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10. APPLICATION CRITERIA – ENTERING HOUSEHOLD INFORMATION INTO THE PROGRAM APPLICATION

10a. Household Size, Location & Member Identification

The Household Location and Member Profiles capture the basic information used by the Program Underwriter to determine who is part of the household and which members will become the title-holding homeowners.

Information Profile	Criteria	Criteria Description
Location Profile	Verification of Residence Location	<ul style="list-style-type: none"> • At least one member of the applicant Household, who will be taking title to the property, must provide the following proof of residency for the 6 months preceding their entry to an Opportunity Drawing: <ul style="list-style-type: none"> ○ One utility bill with a City address dated within 45 days preceding the application date for the BMR Unit. Utility bills can include gas, electric, garbage, or water; or ○ Current paystubs with City address; or ○ A current, formal lease with a City address
Location Profile	Verification of Employment Location	<ul style="list-style-type: none"> • Administrator shall verify that a person works in the City by reviewing an applicant’s paystubs. If an applicant’s employer is not based in City, or if a person’s paystubs do not reflect a City work address, the applicant must supply a letter from the employer stating that the person works primarily in City and demonstrates that at least 75% of their working hours are in City
Member Profile	IDENTIFICATION	<ul style="list-style-type: none"> • All applicants will need to provide positive identification including a copy of valid driver’s license and a copy of a valid social security card.
Member Profile	HOUSEHOLD SIZE	<ul style="list-style-type: none"> • Any household members not living in the same household at the time of application will need to be a co-applicant for the first mortgage loan and on title to form a household • Tax returns and current addresses will be used to determine household size • All applicants, co-applicants, married couples, partners, domestic partners etc. that are on title will have to occupy the property for 45 years per the signed deed restrictions



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10b. Income Inclusion and Exclusion

The Federal and State government both have rules that determine how Gross Income is calculated and what income types are included and excluded from the Gross Income total.

Application Criteria Description

- The gross amount, before any payroll deduction, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services
- The net income from the operation of a business or profession (for this purpose, expenditure for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business). The adding back of certain deductions will be subject to underwriter approval (e.g. depreciation).
- Interest, dividends and other net income of any kind from real or personal property.
- Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay (except as outlined in "exclusions" section)
- Where the family has net family assets in excess of \$5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on a passbook savings rate, up to 10%. The current passbook savings rate used by the Administrator is 2.5%
- Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;

The following is an abbreviated list of items that are excluded from income:

- Casual, sporadic or irregular gifts
- Amounts which are specifically for or in reimbursement of the cost of medical expenses
- 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
- Foster child care payments
- 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
- **See full inclusion list on the Program Website**



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Income Review Procedures

Income maximums are based on “gross” income derived from all sources as detailed in Internal Revenue Code (26 USC Section 61), whether or not exempt from federal income tax. Administrator projects future income based on the gross income on each applicant’s past income. In addition to other items deemed necessary to make this income determination, the Administrator may request up to 4 of the most recent year-to-date pay statements and the previous year’s final pay statement. Administrator must review income documentation for all Household members 18 years and older, regardless of dependency status. Applicants without income will need to sign a Zero-Income Affidavit provided by the Administrator. Unemployment benefits are considered income.

For employed applicants, annual income is generally derived by dividing the year-to-date gross income by the current pay period count and then by annualizing an estimated pay period amount by the total pay period count over one year (12 months). Please note that a Verbal and Written Verification of Employment may be required to be completed by the Employer issuing the pay statements.

#	How Often Paid	How to Determine Annual Income
1	Paid Annually	Annual Gross Pay
2	Paid Monthly	Use monthly gross payment x 12
3	Paid Twice Monthly	Twice monthly gross pay x 2 pay periods x 12
4	Paid Biweekly	Biweekly gross pay x 26 pay periods
5	Paid Weekly	Weekly gross pay x 52 pay periods
6	Paid Hourly	Hourly gross pay x average # of hours per week x 52 weeks
7	Government Employees with Annual Award Letters	Income may be derived by referring to the Annual Award Letter

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Variable Income (Tips, Overtime, Bonuses, etc.)

Please Note: All Variable Income is subject to Underwriter Approval. Each circumstance is different and must be considered using the documentation in the file. The words below are meant to be used as a basic guide to help prospective applicant Household's understand how this income type is considered during the underwriting process.

Tips, Overtime, Bonus, and other "variable income amounts" (amounts that change with each pay period) will be annualized separately from the base income outlined on the chart above. All income will be annualized and totaled unless the applicant can provide documentation from the employer. The employer must be available to complete a verbal verification of employment with the Administrator. In cases, where the variable income item is a one-time occurrence, the amount will be removed from the annualized calculation of income and added in a one-time total to determine the annual income.

Example: An applicant earns \$60,000 per year based on base monthly pay statements of \$5,000 ($\$5,000 \times 12$). In addition to the base income show, the applicant received a \$2,500 one-time bonus in the first quarter of the year. If annualized, the \$2,500 quarterly bonus would total \$10,000 and the total income would be \$70,000 ($\$60,000$ base + $\$10,000$ annualized bonus income). If proper documentation shows that the \$2,500 is a one-time payment, and Administrator is able to verify and validate this information, the \$2,500 would be added to the \$60,000 base. The alternative total income would be \$62,500 ($\$60,000$ base + $\$2,500$ one-time bonus).

Seasonal Workers: Administration will not annualize current income for seasonal workers who provide a Verification of Employment from their employer (s) verifying that the work does not occur year-round

Self-Employed Income: All self-employed applicants must submit a notarized Self-Employed Affidavit provided by Administrator. If self-employed for 2 or more years, Administrator will use verifiable (verified using Form 4506-T) federal income tax returns and review the net income for as many as 3 years of tax returns to determine the projected annual income. If self-employed less than 2 years, Administrator will review the submitted Profit & Loss Statement and use it to determine projected annual income. Additional documentation may be needed from the Self-Employed Household Member in order to determine projected annual income.

Calculating Income from Cash Income: In the case of an applicant who is paid cash for employment, Administrator will require a Verification of Employment from the applicant's employer to confirm annual income and IRS Tax Verification Form 4506-T to confirm that no taxes were paid.



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Variable Income (Continued)

Income from Commercial Property or Land Owned: The net income from any commercial property or land owned by any applicant shall be counted toward the annual Household income.

Unemployed Applicants: Unemployed applicants who are receiving no income at all should submit a Zero-Income Affidavit as provided by Administrator in place of income statements. Applicants receiving unemployment benefits do not need to complete the Zero-Income Affidavit as unemployment benefits are considered income.

Additional Notes on Income Calculation

If applicant has recently changed positions with employer, HouseKeys will determine the effect of the change on the applicant's eligibility and opportunity to receive bonus or overtime pay in the future

If applicant who has historically been employed on a part-time basis indicates that he or she will now be working full time (or vice versa), obtain written confirmation from borrower's employer

A verbal verification of employment (VOE) may be required for each employer

All material alterations, and/or omissions from the initial Registration, Application ID Questions, Opportunity Drawing Entry Form, Application Submission and Supporting Documents; including but not limited to household size, income and asset information, etc., are not permissible and will render all future re-submissions ineligible for review and approval for a period of one year. Exceptions for re-submissions are significant life events such as a job/career change, marriage, death, or the birth of a child and are at the discretion of the Administrator.



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10C. Determining Mortgage and Home Purchase Readiness

Affordable homeownership programming requires that applicant Households who meet the basic requirements for being considered eligible, must also prove that the home purchase fits within their household budget and that they are able to successfully obtain mortgage financing. The following table summarizes the information needed by the Underwriter to approve a household:

Income Profile & Expense Profile	HOUSING PAYMENT TO INCOME RATIO	<ul style="list-style-type: none"> To qualify, an applicant’s total housing payment, including principal & interest, taxes, insurance, and association dues cannot exceed 40% of the income for Below Market (BMR) home. For example, if your annual income is \$90,000 your maximum monthly house payment cannot exceed \$3,000 or \$36,000 per year (40% of \$90,000 = \$36,000 divided by 12 = \$3,000). Additional debts will also be taken into consideration and cannot exceed 45% of income. Non-borrowing applicant’s debt will be added to ratios
Expense Profile	RENT HISTORY	<ul style="list-style-type: none"> Applicants/co-applicants will need to show the last 6 months of rent history HouseKeys will review the current rent vs. the new housing payment for affordability. Any circumstance where the new housing payment exceeds 150% of current rent will be considered a “Payment Shock” risk. For example, if your current rent is \$1,000 per month, then any housing payment exceeding \$1,500 per month would be considered a potential payment shock risk (\$1,000 x 150% = \$1,500). If Payment Shock risk exists, the underwriter may make an exception if compensating factors are present in the file (e.g. post-close reserves)
Asset Profile	DOWN PAYMENT	<ul style="list-style-type: none"> The minimum down payment for the BMR program is 3% of the purchase price with first mortgage loan amount equal to 97% of the purchase price. The minimum 3% of the purchase price must come from the applicant’s own funds, and be present in the applicant’s account for at least 6 months A gift can be used for any down payment amount more than 3% of the purchase price Note: In some cases, mortgage financing programs may require 5% of the purchase price in order to be approved



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10D. Public Record and Default Risk

In addition to determining home purchase readiness, the Program Underwriter must also determine the risk of the property being lost to foreclosure or the risk of a lien being attached to the property that can adversely affect the resale process or excess sale proceeds. The following table summarizes the information needed by the Underwriter to reduce risk and approve a household:

<p>Liability Profile & Credit Profile</p>	<p>CREDIT REPORT AND CREDIT SCORES</p>	<ul style="list-style-type: none"> • A credit report is required for all applicants and non-borrowing applicants • The credit report must include information from all three credit bureaus (Experian, TransUnion, Equifax) and use a mortgage-risk model (used by licensed mortgage lenders) • The lowest median (middle) score is used • The minimum credit score is 620 • An applicant or co-applicant with an unsatisfactory credit report will be denied. • We will be reviewing the Credit Report to identify all of the account balances and monthly payments • The monthly payments on your credit report will be used to determine the total debt ratio (total debt and household payments divided by monthly income) • As stated above, the total debt ratio cannot exceed 45% of monthly income
<p>Public Record Profile</p>	<p>PUBLIC RECORD SEARCH (DETERMINED USING A STATEMENT OF IDENTITY FORM)</p>	<ul style="list-style-type: none"> • An applicant or Co-applicant may apply for consideration under the following circumstances: <ul style="list-style-type: none"> • Chapter 13 bankruptcy – after 2 years from discharge or 4 years from dismissal. • Chapter 7 – after 4 years from discharge • Short Sale/Deed in Lieu - after 4 years • Foreclosure - after 7 years • All applicants, co-applicants, and non-borrowing spouse cannot have liens outstanding at the time of the home purchase • All liens, including IRS liens, or any past due money owed to the IRS, shall be required to be paid off prior to being issued a program approval.



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11. TRANSACTION AND DOCUMENT HANDLING

File Stacking (List of Documents Needed for Each Stage of the Transaction)

If application is approved, and the applicant Household is cleared to move forward with the purchase, the applicant's lender must supply the following documentation to the Administrator (**Financing File Stacking Order**):

1. Lender Checklist (listing all the loan documents)
2. Loan Application with final figures and lending terms (currently known as a 1003)
3. Uniform Underwriting and Transmittal Summary (currently known as 1008)
4. Mortgage Loan Commitment Letter
5. Loan Estimate

Routing documents to the City for signatures can take 10 to 14 business days. Before any transaction documentation can be sent to the City for signature, the following documents will need to be in the Administrator's file (**Pre-Close Stacking Order**):

1. Estimated Settlement Statement – Seller (Re-Sale and Acquisition Transactions Only)
2. Estimated Settlement Statement – Buyer
3. Estimated Settlement Statement – Master
4. Copy of 1st Lender Note & Deed of Trust
5. Copy of 1st Lender Escrow Instructions
6. 1st Lender Request for Notice of Default
7. Copy of any Subordinate Lender Notes and Deeds of Trust
8. Copy of any Subordinate Lender Escrow Instructions
9. Subordinate Lender Request for Notice of Default



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After closing, the Title Company must provide the following to the Administrator (**Post-Close Stacking Order**)

1. Executed BMR Agreements Docs, Notes and Deeds of Trust
2. Recorded Agreement
3. Recorded Request for Notice of Default
4. Final Settlement Statement – Seller (Re-Sale and Acquisition Transactions Only)
5. Final Settlement Statement – Buyer
6. Final Settlement Statement – Master
7. Alta Policy

Length of Escrow and Fall-Out Risk

The typical escrow period for a BMR Unit sale is 90 days. This period can stretch out longer if the property is under construction and there are delays. Applicant Households must be prepared for a long escrow period and to continually keep their file updated to comply with the one hundred twenty-day (120-Day) application review period. Households must be eligible and qualified through to close of escrow. Unfortunately, a change in the application file during the escrow period can cause the applicant Household to become disqualified and lose out on the purchase opportunity.



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12. REASONABLE ACCOMMODATION AND EXCEPTION REQUESTS

Accommodations in Program rules, policies, practices, or services, when such accommodations may be necessary to afford persons with disabilities, or a household with a member with disabilities, equal opportunity to apply for a BMR home. The requested accommodation must be reasonably related to the particular disability of the household member, and must be necessary in order to provide the household with equal access to housing.

Households or individual applicants unable to produce any particular document required in the application form for legitimate reasons beyond their control (natural disaster, military service, refugee status, domestic violence, witness protection program, disability etc.) may request an exception for that particular document.

Upon such request, Administrator may request a reasonably equivalent alternative document, and/or any additional supporting documentation deemed necessary by the Program Processor and Program Underwriter to verify eligibility of the Applicant/Co-Applicant and/or their entire Household.

Exceptions related to disabilities (reasonable accommodations) may be requested according to this procedure, with a brief description of the exception(s) needed due to the Applicant's disability. The City and Administrator will consider the requested exception and will provide a written response within 14 calendar days, stating if the requested exception can be granted in full or part and the reason for such decision. The Administrator may approve or deny such request. If denied, Applicants may submit an appeal of such denial to the City.



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13. APPROVED VENDORS

All vendors shall be approved by HouseKeys. The table below outlines the minimum requirements for any vendor associated with resale of the property:

CONTRACTORS	<ul style="list-style-type: none"> Contractors shall have a valid California Contractor License.
LENDER/LOAN OFFICERS	<ul style="list-style-type: none"> Loan Officers shall have previously attended HouseKeys loan officer orientation class. The lender’s legal department shall approve all BMR documents prior to resale. All Loan Applications must be taken and completed by the Loan Officer listed on the Loan Application (including NMLS License) and must match the name on the Program Approved List
TITLE COMPANY	<ul style="list-style-type: none"> The Title Company shall be based in Northern California and preferably in the County of Santa Clara.
APPRAISER	<ul style="list-style-type: none"> Appraisers shall have a valid California State Certification or California State License that has not expired.