CITY OF MORGAN HILL

HouseKeys
Unlock Opportunity

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

January 2024 Update

Note: Guide is subject to change as updated from time to time.

EQUAL HOUSING OPPORTUNITY

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 Home differs in many ways from buying, owning, and selling a market-rate home. 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 Application Guide includes the guidelines, policies, and procedures that comprise the affordable homeownership program for below market rate (BMR) homes.

The Program Application 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 laws. All proposed changes are subject to approval by the City Council prior to implementation.

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

HouseKeys makes every effort to successfully execute all Opportunity Drawing Lotteries and Applicant Selection Methods. That said, there is a chance that errors, mistakes or omissions can be made by our team or systems that negatively impact an applicant. While HouseKeys will make every effort to correct mistakes, we cannot make any guarantees to any one applicant.

Please contact the City or HouseKeys regarding any conflicts between this Program Application 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: https://www.housekeys.org/
Email: customerservice@housekeys.org
Phone: 1-877-460-KEYS (5397)
City of Morgan Hill Housing Department Address: 17575 Peak Avenue, Morgan Hill, CA 950

2. ONLINE WEB PORTAL DASHBOARD OVERVIEW

Information Profiles	Program Center	Program File Cabinet
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.	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.	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.

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	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.
2. Complete the Registration Wizard	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.
3. Browse the Marketplace	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.
4a. Attend an Orientation	Attend an Orientation for the Program that you are interested in. Make sure that all the applicants who plan on signing the application documentation attend the orientation online or in-person as posted on the event calendar.
4b. Request an Application I.D.	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.
5. Find an Opportunity and Enter an Opportunity Drawing	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).

4. HOUSEHOLD INFORMATION PROFILES

HouseKeys holds mandatory orientation classes to introduce the Program and help applicants learn the process. Households will learn how to organize their BMR application files and prepare for the application process. The application packet is broken down into 10 parts where we gather **Household Information to create an applicant Profile:**

#	**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 to determine if the total is below the income limit for the applicable income category.
4	Expense Profile	Documenting monthly expense obligations	It's important to ensure that your total monthly expenses show that you can afford the monthly housing payment for the home that you may purchase.
5	Asset Profile	Deposit Funds and other Assets	Assets are used to fully document potential income sources and to ensure there are enough funds available to close the purchase transaction.
6	Liability Profile	Your Debt	Along with the mortgage liability that you use to make the home purchase, other debt is evaluated to ensure budget affordability.
7	Credit Profile	Your Credit Score	All three credit bureaus (Equifax, Experian, and TransUnion) may be evaluated to determine if a property is at risk based on collections and public record filings.

8	Public Record Profile	Collections, Liens, Bankruptcies and Foreclosures	These are evaluated to determine whether there are any liens that may impact the title of a potential home that is purchased through the program.
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

a. **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

b. Request an Application ID in the Program Center.
c. Answer all the Pre-Application Questions.
d. The applicant will either receive a pass or fail rating based on the information in the pre-application wizard.
e. 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.
f. An Application ID does <u>not</u> mean you are eligible or approved for the Program. It assigns a unique number that will be used to identify the applicant, the application file and the place in an Opportunity Drawing.

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

5B. APPLICATION PROCESS (OPPORTUNITY DRAWINGS)

Affordable BMR Ownership Opportunities are marketed through an Opportunity Drawing (i.e., lottery). Applicant Households with a valid Application ID are invited to enter an Opportunity Drawing.

OPPORTUNITY NOTIFICATION(S) & OPPORTUNITY DRAWING 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 they can meet ALL listed requirements, the applicant may follow the instructions to Enter Drawing
- Applicant must complete Authorization Form for verification and sharing information with required Third Parties
- 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 (or more than once in a drawing), their lowest ranked submission will be chosen. An Applicant can remove their name from an Opportunity Drawing by completing the Opt-Out Form.
- 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.

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 an Opportunity Drawing by the deadline will receive Ranking Number. If a Lottery is held, Opportunity Drawing Entrants will be given a randomly assigned Initial Ranking Number. The ranking number refers to the order in which your file is reviewed for eligibility and completeness.

The Final Ranking Number will be issued to each Opportunity Drawing Entrant based on a combination of their Initial Ranking Number and the Live/Work Preference. The Initial Ranking Number is used as a tie breaker for households with the same preference category. Households that don't meet the Preference Requirement will be listed in order after those with a Preference.

Example: 5 Applicants enter an Opportunity Drawing. Each of the 5 Applicants receives a randomly assigned Initial Ranking Number between 1 and 5. If Applicants with Initial Ranking Numbers 3 and 5 both have a Live/Work Preference, 3 will be listed first then 5. Applicants 1, 2, and 4 will be labeled as having "No Preference" and will be listed in order after 3 and 5. Final Ranking: 3, 5, 1, 2, and then 4.

Please note: In all Rankings, the Applicant Households who do not meet the Occupancy Standard (number of household members per bedroom) will be assigned a lower priority number, regardless of lottery placement, or other eligibility criteria.

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 Initial Ranking Number based on the time and date stamp that their entry form was completed.

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 Nationwide Multistate License System & Registry (NMLS) ID number and packet must include:
    - Uniform Residential Loan Application (Form 1003) and Uniform Underwriting and Transmittal Summary (Form 1008)
    - Unform Residential Loan Application must include pages from the Lender Loan Information Section (“Section L")
    - 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.
- The applicants are responsible to review the Opportunity Drawing Notice for instructions and deadlines. This notice informs households that an Opportunity Drawing is available and serves as a formal file request. If current and complete documentation is not provided by the file deadline as requested on the notice, the applicants will be skipped.
- 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 minimum document and file requirements, 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 the Opportunity Drawing Entry Deadline.
- Applicants/Co-applicants, and or household members who submit inaccurate information, altered documentation, or false

documentation or certifications, will be disqualified.

- Applicant Households who enter the Opportunity Drawing, receive an Initial and Final Ranking Number, and submit the Minimum File and Document Requirements by the deadline, will be given a Submission and Process Order Number.

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

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

APPLICATION 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 Applicant based on the Submission Process Order.
- If approved, the Administrator will notify the Asset Manager and Homebuilder, and the file will be prepared for Purchase Contract.

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.

Application Package documents should be dated within 120 days of the Close of Escrow and within 30 days of the Opportunity Drawing Submission. Exceptions may be made from time to time based on City and/or Administrator approval.

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 eligible Applicant after the initial appeal review unless initial decision is reversed.**

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 are required to include a percentage of homes in their new construction projects that can be sold to Moderate-Income households. Home prices are based on a calculation of a maximum housing payment (e.g., mortgage principal and interest, taxes, insurance, etc.) that equals no more than 35% of a Moderate-Income household's gross annual 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

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 gross annual 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 date[1]. *** Please note** that certain New Construction Projects and Project-Specific Guidelines don't require applicants to be first-time homebuyers. This will be indicated on the Opportunity Drawing Notification and Marketing Documentation.

  - *** Exception to the first-time homebuyer status will be made to the 3-year period if homeownership loss was sustained due to circumstances beyond the control of the senior applicant but not to allow current home ownership.**

- **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. Mortgage Lenders and Loan Officers registered with the program will issue an approval for mortgage financing, and the City and Administrator will rely on their underwriting decision. Although the City and the Program Administrator will accept the lender approval, the household is still required to be income-eligible and meet the other requirements as stipulated

[1] "Up to three years" speaks to the First-Time Homebuyer Status that is typically verified using 3 years of tax returns.

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. As detailed in Section 7 above, there will be certain New Construction Projects that do not require applicants to be First-Time Homebuyers. This will be indicated on the Opportunity Drawing Notification and Marketing Documentation.

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.

9a. 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

**Drawing entry form answers are used to determine the final ranking of applicants who enter a Drawing. It's the applicant's responsibility to answer the preference questions correctly. Please Note that once the applicant has completed the entry form to enter the Drawing, HouseKeys is unable to modify the Priority/Preference answers provided. If it's discovered that the applicant answered any of the Priority/Preference questions incorrectly, they will lose their final ranking number and be placed at the end of the list. If the applicant does not submit sufficient supporting documentation to prove that they meet a Priority/Preference, the applicant will not be given a Priority/Preference ranking and will also be placed at the end of the list

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	1	5
Three	2	7
Four	3	9
Five	3	11

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 uses one income category for new construction projects:

- "Moderate-Income Household" means a household whose household income does not exceed income limits published under California Code of Regulations, Title 25, Section 6932. Generally, households in this category earn 120% of the County Median Income, with certain calculation adjustments as determined by the State of California.

Homes are priced according to a legally defined formula. For Moderate- Income Households the formula includes:

- One-twelfth (1/12th) of thirty-five percent (35%) of one hundred ten percent (110%) of the applicable County Median Income, adjusted for household size.
- Example: If you were selling a newly constructed 2-bedroom home in 2023 to a Moderate-Income Household, the maximum price of the home would be calculated for a 3-person household. The 2023 Median Income for a 3-person household in Santa Clara County is $163,150. 1/12th of 35% of 110% of 163,150 = $5,234.40. The maximum price at this payment would be $474,081. This doesn't mean that every applicant can afford a 2-bedroom for $474,081, but that is the max price set for the homebuilder, who reserves the option to lower the price if they see fit.

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).

All household members age 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

9d. ASSET LIMITATION CRITERIA

The City of Morgan Hill does not presently have a set maximum limit for household assets. However, the City will use discretion in the review of applications to determine if buyers are not in need of an affordable unit.

As mentioned in Section 10B (Income Inclusion and Exclusion), all assets in excess of $5,000 will be calculated as income(post-close) using a 2.5% passbook savings rate – unless it's an all-cash purchase, in which case a 10% passbook savings rate will be used and applied pre-close.

Gift contributions are limited to 50% of the sales price and must be documented according to the rules detailed in Section 10C (Determining Mortgage and Home Purchase Readiness).

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.

(4) Seniors will be exempt from meeting the First-Time Homebuyer requirement for senior housing (age-restricted) projects. Applicants will not be required to be first-time homebuyers and will not be required to attend first-time homebuyer classes if they have previously owned a house.

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.

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.

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 (e.g., married couples), living space, expenses, debts and/or assets with the Householder.

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**	• 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: ○ 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**	• 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**	• All applicants will need to provide positive identification including a copy of a valid driver's license or government issued ID acceptable to a CA notary and a copy of a valid social security card. • Although the city does not require applicants to be US Permanent Residents or US Citizens, applicants that don't have this residency status must provide written confirmation issued by the Lender's Underwriter that they can close the loan with no issues by file submission deadline with current immigration status.

Member Profile	HOUSEHOLD SIZE	• 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

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 more than $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%. This means that 2.5% of total assets (post-close) more than $5,000 will be included in a purchase with mortgage financing. For all-cash purchases (purchases without a mortgage), the full 10% of assets (pre-close) will be included in annual income calculations.
- 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 childcare payments
- The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is more than the amount actually charged the eligible household.

- **See full inclusion list on 25 CCR § 6914**
- **View Document -** View Document - California Code of Regulations (westlaw.com)

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.

Streamlined Review of Employment Income

For employment (W2) income sources, 3 to 6 consecutive paystubs will be requested, covering at least 30 days. A Streamlined Review of annual gross income is generally derived by dividing the year-to-date total by the total number of months through the most recent pay period ending date and then annualizing by multiplying the result by 12. If all income sources in the Application File come in under the maximum limit for the applicable Income Category, a Streamlined Approval of the Income Portion of the Application File will be completed. If the amount is over the maximum limit, a manual underwrite will be performed and more documents may be required.

Please note that a Verbal and Written Verification of Employment may be required to be completed by the Employer issuing the pay statements.

Manual Review of Employment Income

If a Streamlined Approval of Employment is not possible, a Manual Review will be performed, and a full documentation package will be requested from the Applicant. Below are the calculations used based on how often the Applicants are paid.

#	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

It’s important to note that there are recurring and consistent amounts of pay that can be derived from base income. Overtime, Bonus, Commission, and other line items are considered “Variable Income” and are described below.

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 x 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.

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 an 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.

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 with an approved participating mortgage lender. The City of Morgan Hill will defer to an approved mortgage lending partner for most of these criteria.

Expense Profile	**Lending Risk Factors**	• City maintains a list of approved lenders. All lending risk factors will be determined by the approved lender.
Asset Profile	**Down Payment**	• 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 3 months. • A gift can be used for any down payment amount more than 3% of the purchase price. The gift amount may not exceed 50% of the purchase price. • Note: In some cases, mortgage financing programs may require an amount greater than 3% of the purchase price in order to be approved.

10D. Public Record and Default Risk The lender is responsible for assessing public records and default risk.

Please note that any outstanding public record items that could potentially be attached to the home may be required to be paid off before the close escrow.

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

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 an extended application process and escrow 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.

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 a request. If denied, Applicants may submit an appeal of such denial to the City.

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	• Contractors shall have a valid California Contractor License.
LENDER/LOAN OFFICERS	• 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	• The Title Company shall be based in Northern California and preferably in the County of Santa Clara.
APPRAISER	• Appraisers shall have a valid California State Certification or California State License that has not expired.