

## **ATTACHMENT D**

### **LOAN SERVICING POLICIES AND PROCEDURES FOR YUBA COUNTY**

The Yuba County, hereafter called “Lender,” has adopted these policies and procedures in order to preserve its financial interest in properties whose “Borrowers” have been assisted with public funds. The Lender will to the greatest extent possible, follow these policies and procedures; but each loan will be evaluated and handled on a case-by-case basis. The Lender has formulated this document to comply with state and federal regulations regarding the use of these public funds and any property restrictions, which are associated with them.

The policies and procedures are broken down into the following areas: 1) originating loan; 2) loan monitoring; 3) making required monthly payments or voluntary payments on a loan’s principal and interest; 4) required payment of property taxes and insurance; 5) required Request for Notice of Default on all second mortgages; 6) loans with annual occupancy restrictions and certifications 7) required noticing and limitations on any changes in title or use of property; 8) processing payoff demand; 9) account of payoff; 10) required noticing and process for requesting a Subordination during a refinance; 11) process for senior loan foreclosure; 12) foreclosure process when Lender is senior lien holder; 13) Modification to cure Default; 14) process of Reconveyance to remove lien.

#### **1. Originating Loan:**

The Lender must approve all loans. In order to obtain financing, applicants must meet all property and income eligibility guidelines in effect at the time of loan approval. Applicants will be provided written notification of approval or denial. Reason for denial will be provided to applicants in writing. A Note and Deed of Trust, reflecting loan amount and terms of loan, will secure all approved loans. Deed of Trust must be recorded as a lien against Borrower’s property. When the amount of loan funds used is less than the funds borrowed from the Home Buyer Assistance Program loan, unused loan funds may be applied to the Borrower’s loan to reduce principal balance.

#### **2. Loan Monitoring:**

Upon loan origination, the Lender will enter borrower’s demographics, loan terms, grant funds utilized to fund loan and personal information into the Loan Portfolio Management System, referred to as GMS. Program will accurately calculate and apply loan payments and/or loan payoffs to principle and/or interest, per terms of Note, and generate a loan statement that includes; funds applied to principal and/or interest, interest paid through date, next payment due date, remaining loan balance and balance of accrued interest due on loan. GMS will compile daily, monthly and yearly reports; by payments, payoff, past due loans, balance of all outstanding loans (by grant that provided financing) within the County’s loan portfolio, and prepare IRS

1098 forms to report loan interest paid by borrowers.

3. Loan Repayments:

For Notes, which are deferred payment loans, the Lender must accept voluntary payments on the loan. Loan payments will be credited to principal. The borrower may repay the loan balance at any time with no penalty.

4. Payment of Property Taxes and Insurance:

As part of keeping the loan from going into default, borrower must maintain property insurance coverage naming the Lender as loss payee in first position or additional insured if the loan is a junior lien. If borrower fails to maintain the necessary insurance, the Lender may take out force placed insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of Borrower's new insurance.

When a property is located in a 100-year flood plain, the Borrower will be required to carry the necessary flood insurance. A certificate of insurance for flood and for standard property insurance with an endorsement naming Yuba County as additional insured will be required at close of escrow. The lender will verify the insurance on an annual basis.

Property taxes must be kept current during the term of the loan. If the Borrower fails to maintain payment of property taxes then the lender may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan. The Lender requires Borrower to have impound accounts set up with their first mortgagee wherein they pay their taxes and insurance as part of their monthly mortgage payment.

5. Required Request for Notice of Default:

When the Borrower's loan is in second position behind an existing first mortgage, it is the Lender's policy to prepare and record a "Request for Notice of Default" for each senior lien in front of Lender's loan. This document requires any senior lien holder listed in the notice to notify the lender of initiation of a foreclosure action. The Lender will then have time to contact the Borrower and assist them in bringing the first loan current, if possible. The Lender can also monitor the foreclosure process and go through the necessary analysis to determine if the loan can be made whole or preserved. When the Lender is in a third position and receives notification of foreclosure from only one senior lien holder, it is in their best interest to contact any other senior lien holders regarding the status of their loans.

6. Annual Occupancy Verification and Certifications:

Lender will require that Borrowers submit utility bills and/or other documentation annually to prove occupancy during the term of the loan. Lender will annually verify type of insurance (owner occupied or rental) and mailing address on insurance renewals and tax bills to be that of

the property address. Borrower will also be required to complete an annual occupancy certification.

7. Required Noticing and Restrictions on Any Changes of Title or Occupancy:

In all cases where there is a change in title or occupancy or use, the Borrower must notify the Lender in writing of any change. Lender and Borrower will work together to ensure the property is kept in compliance with the original Program terms and conditions, such that it remains either owner-occupied or available as an affordable home for low-income families. These types of changes are typical when Borrowers do estate planning (adding a relative to title) or if a Borrower dies and property is transferred to heirs or when the property is sold or transferred as part of a business transaction. In some cases, the Borrower may move and turn the property into a rental unit without notifying the Lender. Regardless, changes in title or occupancy must remain in compliance with original Grant Program terms and conditions stipulated at time of loan, for the term of loan.

Typically, an owner-occupant loan is to remain owner-occupied for the full term of loan, and is not assumable. Transfer of ownership or tenure from owner-occupied to rental, would require repayment of all principal and interest due. However, the following transfers of interest shall not require the repayment of loan:

- a) transfer to a surviving joint tenant by devise, descent, or operation of law on the death of a joint tenant;
- b) a transfer, in which the transferee is a person who occupies or will occupy the property, which is:
  - i. a transfer where the spouse becomes an owner of the property;
  - ii. a transfer resulting from a decree of dissolution of marriage, legal separation agreement, or from an incidental property settlement agreement by which the spouse becomes an owner of the property; of
  - iii. a transfer into an inter vivos trust in which the borrower is and remains the beneficiary and occupant of the property;

Change from owner-occupant to owner-occupant occurs at a sale. When a new owner-occupant is not low-income, the loan is not assumable and the loan balance is immediately due and payable. If the new owner-occupant qualifies as low-income, the purchaser may either pay the loan in full or assume all loan repayment obligations of the original owner-occupant, subject to the approval of the Lender.

If a transfer of the property occurs through inheritance, the heir (as owner-occupant) may be provided the opportunity to assume the loan fixed rate determined by the Lender, provided the heir is income eligible. If the heir intends to occupy the property and is not low-income, the balance of the loan is due and payable. If the heir intends to act as an owner-investor, the

balance of the loan may be converted to an owner/investor interest rate and loan term and a rent limitation agreement is signed and recorded on title. All such changes are subject to the review and approval of the Lender.

Change from owner-occupant to owner-investor occurs when an owner-occupant decides to move out and rent the assisted property, or if the property is sold to an investor. If the owner converts any assisted unit from owner-occupied to rental, the loan is due in full.

Conversion to use other than residential use is not allowable where the full use of the property is changed from residential to commercial or other. In some cases, Borrowers may request that the Lender allow for a partial conversion where some of the residence is used for a business but the household still resides in the property. Partial conversions can be allowed, if it is reviewed and approved by any and all agencies required by local statute. If the use of the property is converted to a fully non-residential use, the loan balance is due and payable.

#### 8. Processing payoff demands:

Upon request for payoff balance, Lender will provide a payoff statement to Borrower or third party requesting the payoff statement, upon providing Lender with a signed borrower authorization. Anticipated payoff date is entered into the Loan Portfolio Management Program (GMS) plus any fees due for preparing and/or recording of reconveyance. GMS will generate a payoff statement with interest paid to anticipated date of payoff, including a per diem interest amount, if payoff exceeds anticipated payoff date. Lender will provide a payoff statement to Borrower and/or third party, and a copy of statement will be placed in Borrower's loan file.

#### 9. Accounting for loan repayment:

Once Lender receives Loan payoff funds, the amount and date Loan funds received are entered into GMS, so interest stops on date of payoff. In the event an overpayment of Loan funds are received, overpayment will be refunded to Borrower. If Loan payoff is short, immediate action will be taken to collect any additional funds due, so that Loan is paid in full and Borrower is not charged unwarranted interest. Loan Status, is then changed from active loan to payoff in GMS. This will remove Loan from outstanding Loan balance report in the Lender's electronic system will retain all Loan history in GMS program.

#### 10. Requests for Subordinations:

When a Borrower wishes to refinance the property, they must present a subordination request to the Lender. The Lender will subordinate their loan only when there is no "cash out" as part of the refinance. No cash out means that there are no additional charges on the transaction above loan and escrow closing fees. There can be no third-party debt payoffs or additional encumbrance on the property above traditional refinance transaction costs. Furthermore, the refinance should lower the housing cost of the household with a lower interest rate, and the total indebtedness on the property should not exceed the current market value.

Also, provisions of Section 5.0.B and 5.0.C of these guidelines still apply, which state that the loan must:

- c) be fully amortized and have a fixed interest rate that does not exceed the current market rate, as established by an index identified in the most recent NOFA;
- d) not have a temporary interest rate buy-down;
- e) have a term "all due and payable" in no fewer than 30 years; and;
- f) not have a balloon payment due before the maturity date of the Program loan.

Upon receiving the proper documentation from the refinance lender, the request will be considered by the Lender. Upon approval, the escrow company will provide the proper subordination document for execution and recordation by the Lender.

#### 11. Process for Senior Loan Foreclosure:

Upon any condition of loan default: 1) non-payment; 2) lack of insurance or property tax payment; 3) change in title or use without approval; 4) default on senior loans, the Lender will send out a letter to the Borrower notifying them of the default situation. If the default situation continues then the Lender may start a formal process of foreclosure.

When a senior lien holder starts a foreclosure process and the Lender is notified via a Request for Notice of Default, the Lender, who is the junior lien holder, may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount or payoff amount must be obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges and fees to date. Lender must confer with Borrower to determine if, upon paying the senior lien holder current, the Borrower can provide future payments. If this is the case then the Lender may cure the foreclosure and add the costs to the balance of the loan with a Notice of Additional Advance on the existing note.

If the Lender determines, based on information on the reinstatement amount and status of borrower, that bringing the loan current will not preserve the loan, then Lender may determine if it is cost effective to protect their position by paying off the senior lien holder in total and restructure the debt such that the unit is made affordable to the Borrower. If the Lender does not have sufficient funds to pay the senior lien holder in full, then they may choose to cure the senior lien holder and foreclose on the property themselves. As long as there is sufficient value in the property, the Lender can afford to pay for the foreclosure process, pay off the senior lien holder, and retain some or all of their investment.

If the Lender decides to reinstate, the senior lien holder will accept the amount to reinstate the loan up until five (5) days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four (4) to six (6) months from the date of recording of the "Notice of Default." If the Lender fails to reinstate the senior lien holder before five (5) days prior to the foreclosure sale date, the senior lien holder would then require a full payoff of the balance, plus costs, to cancel foreclosure. If the Lender determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the Lender's lien may be eliminated due to insufficient sales proceeds.

## 12. Foreclosure Process When Lender is Senior Lien Holder:

When the Lender is first position as a senior lien holder, active collection efforts may begin on any loan that is 31 or more days in arrears. Attempts may be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed until loan payments have reached 90 days in arrears, at which time the Lender may consider foreclosure. Lender may consider the following factors before initiating foreclosure:

- a) Can the loan be cured and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?
- b) Can the Borrower refinance with a private lender and pay off the Lender?
- c) Can the Borrower sell the property and pay off the Lender?
- d) Does the balance warrant foreclosure? (If the balance is under \$5,000, the expense to foreclose may not be worth pursuing.)
- e) Will the sales price of home "as is" cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?

If the balance is substantial and all of the above factors have been considered, the Lender may opt to initiate foreclosure.

### Thirty (30) and Sixty (60) Day Delinquencies.

The County shall send the Borrower a letter noting the amount of delinquent or performance default.

This notification must include the exact amount of funds to be remitted to the Lender to prevent foreclosure (such as, funds to bring a delinquent Below Market Interest Rate (BMIR) current or pay off a Deferred Payment Loan [DPL]). This letter shall be followed by a telephone call reminding the borrower of the loan amount and due date or performance default.

### Ninety (90) Day Delinquency.

The County shall send a certified letter noting the amount delinquent or performance default. In this letter, a date and tie shall be set for a meeting between the borrower and a member of County staff. At this meeting, the following will be discussed.

- a) reason for delinquency or default
- b) any changes in borrower's health, family circumstances or financial status that limits their repayment ability

- c) amounts in arrears

At the conclusion of this meeting, the following will be determined:

- a) how and when the amount in arrears will be paid
- b) how performance defaults will be remedied
- c) if a personal emergency (loss of job, loss of spouse or co-borrower, serious illness) has restricted repayment ability

13. Modification to Cure Default:

If, because of such an emergency, the Borrower cannot fulfill the term(s) of the loan or afford to repay the loan due to a hardship, the County may exercise one or more of the following options:

- a) Amend the Note and Deed of Trust to defer repayment of the amount due at loan maturity, that is the original principal and the accrued interest, for up to an additional 30 years (at 0% additional interest), this may be offered one time, or;
- b) Converting the debt at loan maturity that is the original principal balance and any accrued interest, to an amortized loan, repayable in 15 years at 0% additional interest.

If the Borrower does not appear for the 90-day delinquency meeting, and does not contact the County to reschedule the meeting, staff may immediately begin foreclosure proceedings. Any borrower who participates in the process outlined above and then becomes 90 days delinquent within two years of renegotiating their loan terms may be subject to immediate foreclosure.

Lender should contact a reputable foreclosure service or local title company to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lien holders. The service will advise the Lender of all required documentation to initiate foreclosure (Note and Deed of Trust usually) and funds required from the owner to cancel foreclosure proceedings. The service will keep the Lender informed of the progress of the foreclosure proceedings.

When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the Lender may sell the home themselves under a homebuyer program or use it for an affordable rental property managed by a local housing authority or use it as a transitional housing facility or other eligible use. The Lender may also contract with a local real estate broker to list, sell the home, and use those funds for program income eligible uses.

#### 14. Process for Reconveyance:

Once the loan has been paid in full, the Lender has an obligation to reconvey the Deed of Trust in a timely manner. The following outlines the process:

- a) The title company or realtor will send written request for payoff to the Lender.
- b) The Lender provides a disclosure of the repayment payoff amount.
- c) The title company issues a repayment check to the Lender.
- d) When the Lender has received payment in full, the necessary forms will be initiated
- e) The trustee will remove the lien upon receipt of a signed request for Reconveyance submitted with original Note and Deed of Trust. The Lender however, prefers to prepare a Substitution of Trustee and Deed of Reconveyance (substituting the County in as trustee). When prepared this way the potential of losing the original legal documents is diminished.
- f) If there is a sale transaction opened with a title company, then the Substitution of Trustee and Deed of Reconveyance is prepared by Lender, and submitted to title to record when the ownership of the property is transferred.
- g) If the borrower pays off the loan, and no sale is involved, then Lender will prepare the Substitution of Trustee and Deed of Reconveyance and send to Borrower, with instructions to record the Reconveyance. Original Note and Deed of Trust, will be stamped "Paid in Full", and returned to Borrower.

**CDBG LOAN UNDERWRITING GUIDELINES**  
**CDBG ASSISTANCE PROGRAMS**  
**COUNTY OF YUBA**  
**Revised 01/21/2025**

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**BACKGROUND**

The County of Yuba has developed a Homebuyer Assistance Program to provide assistance to low- and moderate-income households in purchasing a home in Yuba County. A primary source of funding for the County's Program is the Community Development Block Grant (CDBG) Program funded by the California Department of Housing and Community Development (HCD).

The task of producing quality loans is a balance between the "science" of gathering information and analyzing risk, and the "art" of making a judgment that gives the borrower every possible consideration. When that balance is maintained, the County can provide quality loans that meet borrowers' needs for home financing, without imposing excessive financial burdens.

**OBJECTIVES OF THE CDBG PROGRAM**

The five (5) objectives of the CDBG program are:

1. To provide down payment assistance.
2. To support interest rate buy-down, as a means of reducing primary loan payment.
3. To pay reasonable closing costs.
4. To benefit low- and moderate-income households.
5. Provide grants to assist with closing costs, if available.

All activities undertaken with CDBG financial assistance must support and promote one of the above national objectives. As a lender of last resort, the County cannot apply the conventional underwriting criteria, which would be applied by a private lender. To do so will often result in the denial of applications for a variety of reasons.

**CRITERIA FOR ASSISTANCE**

To be eligible to participate in the program borrowers and property must meet the following criteria:

1. Total household income must be at or below 80-percent of the area medium income.
2. Meet the U.S. Department of Housing and Urban Development (HUD) income limits (updated 2024).
3. Owner-Occupant – Must continue to live in the home after purchase. When home is no longer owner-occupied, loan will be due and payable.

4. Housing units must meet local buildings codes and be free from health and safety defects at time of purchase.
5. The purchase price limits for this Program by number of units, are as follows:

The purchase price limits for this Program shall be the most recent median sales price applicable to the home i.e. for new or previously owned single-family residences; condominiums; or manufactured homes on a single-family lot and placed on a permanent foundation system within Yuba County, as established by comparable sales or information by reputable sources. The Program Administrator will coordinate with the local Association of Realtors to acquire the most recent available median sales price applicable to each application on a case by case basis, and include documentation used to determine this limitation within each applicant's program file. This method is necessary in absence of a CDBG-established purchase price limit for Homeownership Assistance.

## **STANDARDS FOR ASSISTANCE**

In evaluating requests for financial assistance, the Sponsor should observe the following mandated criteria:

1. Will the assistance being requested promote the objective?
2. Can the County provide the financial assistance being requested in a manner that is consistent with the application approved by HCD and the regulations governing the CDBG program? For example, if the applicant is seeking a grant, does the County have the authority to make a grant, or must all assistance be in the form of a loan?
3. Are the terms of the financial assistance consistent with the County's Program Guidelines? For example, if a borrower is requesting a 40-year deferred period, does the County Program Guidelines allow for such a term?
4. When the County denies an application for assistance, the basis for denial must be clear and easily translatable. In addition, whatever the basis for denial happens to be, the County must be prepared to go public, if the need arises, with the action that is taken. For example, if an applicant and property meet all established criteria, but is denied because of a credit history that does meet the threshold of the Guidelines, the County must be prepared to provide the reason at a meeting of the Board of Supervisors in the event an applicant chooses to appeal a decision of the CDSA Director. The Program Administrator and staff must also communicate the reason in writing. The Program cannot deny for an undisclosed reason. There is nothing that can be more harmful to the perception of fairness of a program than to have an applicant receive conflicting information about why an application was denied or to receive inadequate or vague communication.

## UNDERWRITING GUIDELINES

Some of the guidelines outlined below have been approved by the State as part of the CDBG application process and are not subject to change without formal approval of the State. These guidelines are identified as such. The rest of the guidelines should be used as a flexible yardstick by which to measure applicants. The Sponsor reserves the right to vary from these guidelines whenever necessary to achieve the program objectives.

### 1. LOAN PROGRAM

The Program does not have a specific subsidy limit; therefore, the Sponsor has established a minimum and maximum subsidy limit which has been approved by the Yuba County Board of Supervisors. The loan amount may be lower than the HUD-published limits.

#### A. Loan amount

The amount of Program assistance available to a homebuyer toward purchase of a home shall have a minimum loan amount of no less than \$15,000 and a maximum loan amount of no more than \$80,000.

Any approved amount for lead-based paint evaluation, buyer's non-recurring closing costs, reduction activities or relocation assistance shall be included in the maximum loan amount.

#### B. Interest Rate

The CDBG program has established an interest rate up to 3% per annum, as stated in HCD's regulations; however, local program guidelines determine and direct the interest rate utilized. Once local guidelines have been establishment and approved, any changes will require re-approval from the County Board of Supervisors. The County has determined that all loans will contain a simple interest rate of three percent (3%) per annum, beginning on the day that the Deed of Trust is recorded.

An interest rate reduction will be applied to the loan terms, pursuant to the schedule below; providing borrower continues to meet the following required criteria:

- borrower maintains continuous residence at the property
- no outstanding non-compliance violations on property
- property taxes are paid current
- homeowners' insurance and/or flood insurance are paid current
- all property insurance policies name County of Yuba as loss payee

If at any time during a sequenced rate reduction schedule, borrower fails to meet the above criteria, a rate reduction will not be considered for that phase; however, borrower will be extended the opportunity to correct defaulted elements and participate in future reductions.

### Interest Rate Reduction Schedule

- 3.00% Owner-occupied borrowers, with total income less than 80% of the County median income, who qualify for the CDBG program, will receive a simple interest rate of 3% per annum; with interest beginning on the day Deed of Trust is recorded as a lien on property.
- 2.5% Providing borrower meets the required criteria, interest will be reduced to a new per annum rate of 2.5%; Starting year 6 through end of year 10, following the recording of the deed of trust.
- 2.0% Providing borrower meets the required criteria, interest will be reduced to a new per annum rate of 2.0%; Starting year 11 through end of year 15, following the recording of the deed of trust.
- 1.5% Providing borrower meets the required criteria, interest will be reduced to a new per annum rate of 1.5%; Starting year 16 through end of year 20, following the recording of the deed of trust.
- 1.0% Providing borrower meets the required criteria, interest will be reduced to a new per annum rate of 1.0%; Starting year 21 through end of year 25, following the recording of the deed of trust.
- 0.5% Providing borrower meets the required criteria, interest will be reduced to a new per annum rate of 1.0%; Starting year 26 through end of year 30, following the recording of the deed of trust.
- 0.0% Upon repayment of the Program loan, on or before the expiration of the original 30-year term, County shall forgive all deferred accrued interest due.

**NOTE:** The reduced rate will be retroactive from the original date of the recorded Deed of Trust;

If the Borrower is unable to resolve the full repayment of a deferred payment loan at maturity date, due to hardship (see Section F below); the Program Operator, with County approval, will address the hardship by applying the following modification:

- Reduce interest rate to 0%
- Extend loan term, up to an additional 10 year period
- Modify loan term from deferred to amortized monthly principal payments

In the event of default (not defined as hardship), principal balance and all accrued interest, at the rate of 3% per annum, shall be due and payable.

#### C. Terms

CDBG regulation state loans financed under the CDBG program will be for a maximum term of 30 years, allowing the County's local program guidelines to determine the loan term. The Sponsor has instituted that program loans shall be deferred and have a term "all due and payable" in no fewer than 30 years; an exception would be if primary lender is a USDA loan, with a loan term up to 42 years, than program loan term will be extended to match that of the superior financing. There shall not be a balloon payment due before the maturity date of the Program loan. The following housing expense ratio will be applied:

- 50% or less: Applicants spending 50% or less of their income on housing expenses will be offered a term of 30 years. The Sponsor retains the option to extend an exception; based on the total debt-to-income ratio of applicants who spend more than 50% of their income on housing expenses.

This ratio is calculated by adding up all housing expenses (mortgage payments, property insurance, and taxes, gas, electricity, water, garbage and other utilities) and dividing the total by the applicant's gross income.

D. Payments

All loans financed by the Program will be deferred payment loans. However, a Borrower may pay a portion of or the entire deferred loan amount at any time without a prepayment penalty.

Although payments are not required during the loan term, loan will continue to accrue interest from date of the recording of the Deed of Trust.

Borrowers must maintain the property in good condition for the term of the loan. Should the property not be maintained in accordance with the Agreement, the loan shall be considered in default and will become due and payable. If necessary, foreclosure proceedings will be initiated.

E. Impound Account

All households will be required to have impound accounts for the payment of taxes and insurance to ensure they remain current.

F. Hardship

Hardship is defined as changes in Borrower's health, family circumstances, or financial status that limits or restricts their repayment ability such as loss of job, loss of spouse or co-borrower, or serious illness.

2. OWNER-OCCUPANTS

A. Ability To Make Existing Mortgage Payments

The Sponsor may examine applicant's ability to make the payments on existing mortgages as well as their ability to make payments on the proposed loan. If the applicant is having difficulty making payments on existing loans and his/her income is unlikely to change, there is a high possibility that they might default on the existing loans.

The following issues must be addressed when considering ability to pay:

i. Income

Because of the nature of this program, owner-occupant income is not an underwriting consideration. However, all sources of income will be verified. Staff will use the appropriate methods as indicated below.

- Taxes: The most recent two (2) years federal income taxes are reviewed (when available).
- Wages: Wages are verified in writing by the employer and/or by obtaining copies of the applicants, most recent two (2) month check stubs showing year-to-date earnings.
- Government Assistance: Social Security, Unemployment Benefits, AFDC, SSI and other forms of government assistance are verified in writing by the appropriate agency.
- Interest: Interest income is verified by recent bank statements.
- Other: All other sources of income will be verified.

ii. Housing Expenses to Gross Income Ratio

The Housing Expenses ratio, as defined in Section 1.C. is an important underwriting criteria because this ratio has a direct bearing on the applicant's ability to make payments on existing mortgages. If, for example, the applicant is spending 75% of their income on housing expenses, there is a high possibility that an unexpected financial crisis cause applicant to default on their mortgage.

Applicants who spend in excess of 50% of their income on housing expenses will only be given a loan if they have a credit score acceptable to the first mortgage lender (see attached credit score range), a good mortgage/rent payment history, and can show at least 10% equity in the property. (see section 2.B. below).

iii. Credit

Poor credit alone is not generally a valid reason for denying a loan. Many of the

applicants who qualify for this program have poor credit or no credit. A credit report indicates the borrower's creditworthiness with previous mortgages, shows undisclosed debts, revolving accounts, installment accounts and any judgments, garnishments, liens and/or bankruptcies that are a matter of public record. A homeowner who has made payments on previous or current obligations in a timely manner represents a reduced risk to a lender.

Credit reports will be obtained for all loan applicants. However, if applicant has a current approved loan with the United States Department of Agriculture (USDA), or another lender who has already attained a credit report, a new credit report will not be required to establish credit worthiness. Program Administrator will determine if a new credit report will be obtained, or if the County will accept an existing report from the first mortgage lender.

iv. Mortgage Payment History

This information is used to supplement income and credit information. Applicants with poor credit or no credit, low income, and a high housing cost income to ratio may still be given a loan if they have a good prior mortgage payment history.

Written verification of prior payment and loan balance may be obtained either from the lender or from the credit report for all existing mortgages.

v. Title Report

Aside from providing information about Trust Deeds, the Preliminary Title Report also provides information on liens and judgments, which are not listed in the credit report. Liens placed on the applicants' property by the local jurisdiction because of an inability to make property tax or utility payments are very important. Before a loan can be recorded, either these liens must be paid or the applicant must be in the process of making regular payments to retire the debt.

B. Loan Security

In all cases, the security for the loan is the property. For this reason, it is important to determine the value of the property so that the Sponsor will know in advance the security upon which the loan will be based. This value is determined by estimating the actual value of the property, calculating the Loan-to-Value Ratio, and determining in what position the loan will be.

i. Value Determination

Although, the equity position that the Sponsor would take in any given loan is usually derived from the current property value, the Program describes the property value as being the purchase price value.

Appraisal: This is the most reliable and most expensive method. Because of the high cost,

appraisals are rarely done and may be shared between first mortgage lender and Sponsor.

ii. Loan-to-Value Ratio

The Loan-to-Value Ratio is the primary method of determining the jurisdiction's equity position and is calculated by dividing the total outstanding loans, liens, and judgments (including the proposed CDBG loan) by the value of the property after purchase. For example, if an applicant has \$90,000 in outstanding debt and a property value of \$100,000, the property would have a 90% loan-to-value ratio.

The loan-to-value ratio for an owner-occupied homebuyer assistance loan, when combined with all other indebtedness secured by the property, shall not exceed 100% of the median sales price in the county in which the property is located (Yuba County for this program).

iii Loan Position

The secondary consideration in determining the jurisdiction's equity position is the number of loans, liens, and judgments that appear ahead of the jurisdiction's loan. A loan in fourth position, in which the owner's remaining equity is merely 20%, is not as secure as a loan in second position with the same amount of equity.

The CDBG lien should be the first deferred payment loan recorded behind any performing/amortized loans. Exceptions may be made on a case-by case basis.

No financing, junior or senior to the CDBG loan, may have a balloon payment due before the maturity date of the CDBG loan.

All subordinate financing shall defer all principal and interest payments for the term of the CDBG Program loan.

iv. Loan-to-Value Guidelines

- 100%: This typically will be the maximum ratio and will only be allowed when the owner has good credit, good rental/prior mortgage payment history (no late payments in the last 12 months), a clean title report, a housing expenses ratio of less than 50%, and the loan must be no lower than third position.
- 95%: This will be the maximum allowed for the typical applicant with the medium risk level (i.e.: a fair credit history) with a housing expenses ratio of not more than 55% The loan must not be in a position lower than third.
- 90%: This will be the maximum allowed for applicants with fair credit, good rental/prior mortgage payment history, a housing expense ratio of not more than 60 %, and the loan must be no lower than third position.

### 3. DEBT-TO-INCOME RATIO

Most first mortgage lenders generally use a front-end ratio ranging between 28-38% and a back-end ratio ranging from 41-46%. The Fannie Mae standards are 28-40% front end and 37-50% back-end. The CDBG Program does not impose these ratios; therefore, the Program Administrator has established local criteria. The County will treat each loan as a separate and unique transaction. There may be other factors, aside from only the ratios, that can demonstrate the borrower's ability and willingness to repay loan by the end of loan term. The primary lender is responsible for adequately analyzing the probability that the borrower will be able to repay the mortgage obligation in accordance with the terms of the loan. The Program Administrator must underwrite for the CDBG loan, and may not rely only on the primary lender's assessment.

#### i. Front-End Ratios

- 28-40%. The front-end ratio is comprised of the homebuyer's total monthly mortgage payment (PITI – principal, interest, taxes, insurances and HOA dues) divided by the total monthly gross income. This figure represents the percentage of the homebuyer's gross monthly income that will be used for housing payments.

#### ii. Back -End Ratios

- 37-50%. The back-end ratio is calculated by adding the total monthly housing payment to the homebuyer's other on-going debt obligations such as revolving credit, installment accounts (that have more than 10 months left to pay on), child support and alimony. This figure is divided by the total monthly gross income.

The Program Administrator may allow the ratios to exceed the normal range where significant compensating factors exist. The Program Administrator judges the overall merits of the loan application; and will determine what compensating factors apply and the extent to which ratios may be exceeded. When exceeding the County's standard criteria, the Lender will be the controlling factor when making underwriting exceptions. This decision shall be documented in the file.

The following compensating factors are some of the more common ones:

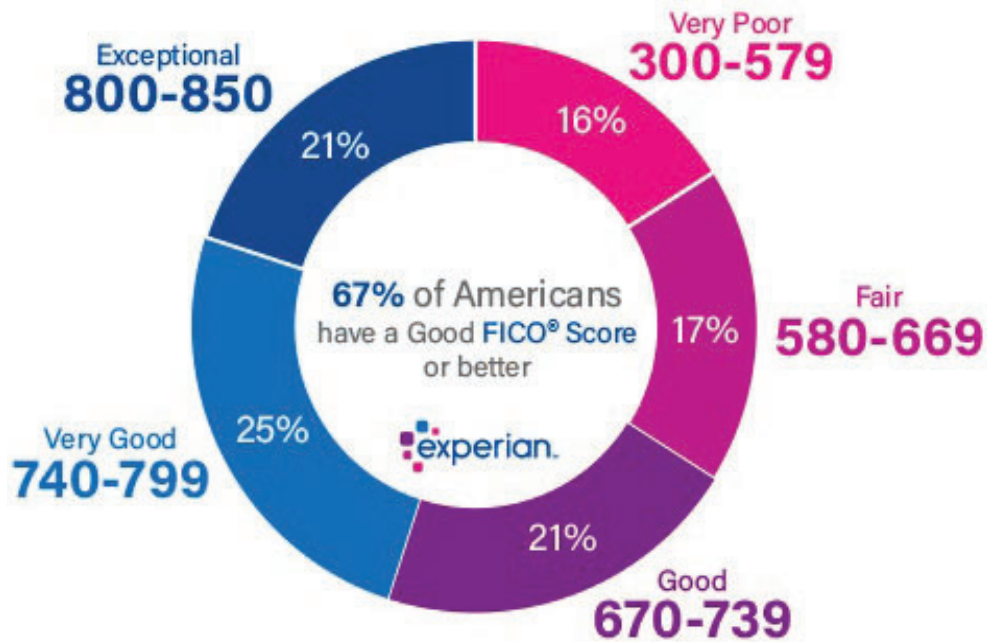
- The prospective homebuyer has successfully demonstrated over a minimum 12-month period that ability to pay housing costs equal to or greater than the proposed monthly housing costs for the property being purchased. This means successfully handling housing costs plus any other household debt. If the homebuyer has met their housing obligations as well as all other debts, there should be little reason to doubt the homebuyer's ability to continue to do so.
- The prospective homebuyer is a limited user of credit and they show a history of being able to save money.

- The prospective borrower has substantial non-taxable income. Special consideration to regular sources of income that are non-taxable such as child support, disability payments, retirement payments, workers compensation benefits, social security and VA benefits which are to continue should be “grossed up”. Nontaxable income is worth more than taxable income because the borrower does not have to pay taxes on it. To “gross up” means the Recipient needs to determine the amount of tax savings the borrower receives. Most non-taxable income is “grossed up” by 15%. This means that the Recipient takes the amount of income  $\times 0.15$  = “the amount of tax savings”. This is added to the income for a new total income.
- Previous credit history shows that the prospective borrower has the ability to devote a greater portion of income to housing expenses. This means that the borrower is a limited credit user or may not use credit at all, thus having more income to devote towards housing.
- There will be no more than a 5% increase in the prospective homebuyer’s housing expense.

4. Due Upon Sale, Transfer, or Default

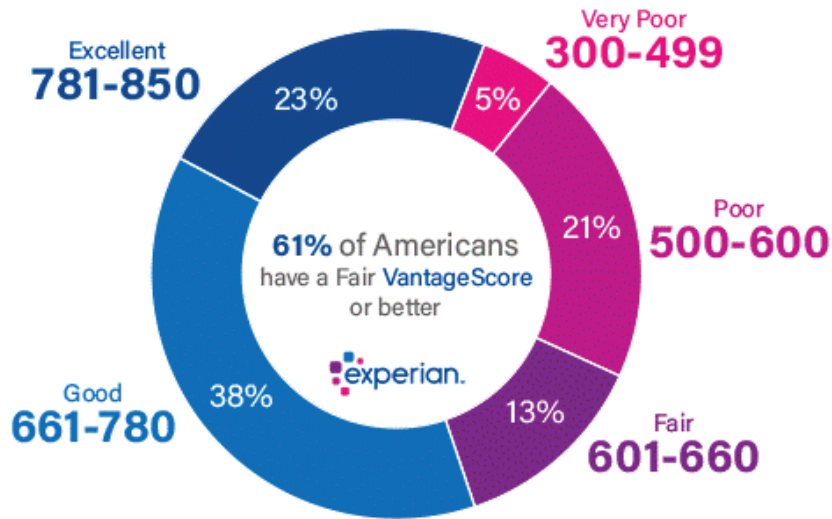
1. All loan principal and any interest due, shall be due and payable in full upon sale or transfer of title (unless assumable as stated in 4 below) or when borrower no longer occupies home as his/her principal residence or upon loan maturity date.
2. The loan will be in default if the borrower fails to maintain required fire or flood insurance or fails to pay property taxes.
3. Borrowers must maintain the property in good condition for the term of the loan. Should the property not be maintained in accordance with the Agreement, the loan shall be considered in default and will become due and payable. If necessary, foreclosure proceedings will be initiated.
4. Program loans may or may not be assumable according to the HCD program and the loan documents. The County of Yuba elects to offer assumability of a loan to a borrower’s heir, providing heir can meet the income requirements to assume remaining term of loan and maintains continuous occupancy of property. The County must approve loan assumptions.

## FICO® Score Ranges:



Credit Score	Rating	% of People	Impact
300-579	Very Poor	16%	Credit applicants may be required to pay a fee or deposit, and applicants with this rating may not be approved for credit at all.
580-669	Fair	17%	Applicants with scores in this range are considered to be subprime borrowers.
670-739	Good	21%	Only 8% of applicants in this score range are likely to become seriously delinquent in the future.
740-799	Very Good	25%	Applicants with scores here are likely to receive better than average rates from lenders.
800-850	Exceptional	21%	Applicants with scores in this range are at the top of the list for the best rates from lenders.

## Vantage Score Ranges:



Credit Score	Rating	% of People	Impact
300-499	Very Poor	5%	Applicants will not likely be approved for credit.
500-600	Poor	21%	Applicants may be approved for some credit, though rates may be unfavorable and with conditions such as larger down payment amounts.
601-660	Fair	13%	Applicants may be approved for credit but likely not at competitive rates.
661-780	Good	38%	Applicants likely to be approved for credit at competitive rates.
781-850	Excellent	23%	Applicants most likely to receive the best rates and most favorable terms on credit accounts.

## Why Credit Scores Matter

Credit scores are decision-making tools that lenders use to help them anticipate how likely you are to repay your loan on time. Credit scores are also sometimes called risk scores because they help lenders assess the risk that you will not be able to repay the debt as agreed.

However, credit scores are usually not the only things lenders will look at when deciding to extend you credit or offer you a loan. Your credit report also contains details, which could be taken into consideration, such as the total amount of debt you have, the types of credit in your report, the length of time you have had credit accounts and any derogatory marks you may have. Other than your credit report and credit scores, lenders may also consider your total expenses against your monthly income (known as your debt-to-income ratio), depending on the type of loan you're seeking.

### FICO® Score Factors:

- Most influential: Payment history on loans and credit cards
- Highly influential: Total debt and amounts owed
- Moderately influential: Length of credit history
- Less influential: New credit and credit mix (the types of accounts you have)

### Vantage Score Factors:

- Most influential: Payment history
- Highly influential: Age and type of credit, percent of credit limit used
- Moderately influential: Total balances and debt
- Less influential: Recent credit behavior and inquiries, available credit

## Minimum Credit Scores

There is no minimum credit score needed to apply for most loans or credit cards. However, you are less likely to qualify for a loan or credit card and less likely to receive favorable rates when your credit score is low. If you are trying to qualify for a conventional loan or credit card with a low credit score, you may wish to wait until your credit improves, so you can ensure you get the best rates possible. Some mortgage servicers such as the FHA provide general guidelines for those with credit scores on the lower end:

- FHA mortgage loans require a minimum of 580 or higher with a 3.5% down payment.
- For FHA applicants under 580, qualification for a loan is still possible, but a 10% down payment would be required along with meeting other requirements. See [FHA's](#) site for more information.

# Factors That Affect Your Credit Scores

The information that impacts a credit score varies depending on the scoring model being used. Credit scores are generally affected by elements in your credit report, such as:

- Payment history for loans and credit cards, including the number and severity of late payments
- Credit utilization rate
- Type, number and age of credit accounts
- Total debt
- Public records such as a bankruptcy
- How many new credit accounts you've recently opened
- Number of inquiries for your credit report

## Credit Scores Do Not Consider the Following Information:

- Your race, color, religion, national origin, sex or marital status  
(U. S. law prohibits credit scoring formulas from considering these facts, any receipt of public assistance or the exercise of any consumer right under the Consumer Credit Protection Act.)
- Your age
- Your salary, occupation, title, employer, date employed or employment history (However, lenders may consider this information in making their overall approval decisions.)
- Where you live  
Certain types of inquiries (requests for your credit report). The score does not count "consumer disclosure inquiry," requests you have made for your own credit report. It also does not count "promotional inquiry" requests by lenders to make a "preapproved" credit offer or "account review inquiry" requests by lenders to review your account. Inquiries for employment purposes.

[www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/](http://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/)

## What FICO score do you need to get a mortgage?

Typical minimum FICO scores needed to Buy a House in 2025:

- FHA Loan – 580 (500-579 score is possible but unlikely)
- VA Loan – 620 (some lenders require 580)
- USDA Loan – 640
- FHA 203K Loan – 620
- Conventional Loan – 620

<https://www.homelight.com/blog/buyer-credit-score-to-buy-a-house/>

## How do you calculate a credit score?

You can calculate it yourself using the formula below:

- Add up the balances on all your credit cards.
- Add up the credit limits on all your cards.
- Divide the total balance by the total credit limit.
- Multiply by 100 to see your credit utilization ratio as a percentage.