Loan Administration Plan
Policies and Procedures Manual

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1 INTRODUCTION

OVERVIEW

In 2011, the California State Legislature adopted Assembly Bill x1 26 which dissolved redevelopment agencies statewide. At that time, the City of Hercules ("City") chose not to become the Housing Successor to the former Hercules Redevelopment Agency ("Former Redevelopment Agency"). The Contra Costa County Housing Authority ("County Housing Authority") became the Housing Successor by operation of law; however, they declined the transfer of housing assets. Consequently, between 2011 and 2024, no party was actively administering the seven Former Redevelopment Agency's loan programs. With the lack of program oversight, borrowers did not receive regular monthly loan statements and delinquencies were not pursued by the City nor the County Housing Authority. To remedy this situation, the City elected to become the Housing Successor in February 2024 and subsequently reinitiated loan program administration.

The Former Redevelopment Agency originated various loan programs that were provided to borrowers in need of financial assistance. The loans, now assumed by the City, have specific requirements by the loan program that articulate such terms as loan restructuring, extended terms, subordination of loan to new debt, collateral substitution, and/or loan pay-off.

The purpose of this Loan Administration Plan ("Plan") is to assist the City with the administration of these housing loans during the loans' lifecycle. Additionally, this Plan addresses how the City will handle matters involving delinquencies that occurred between 2011 and 2024, prior City program administration, and how the City will coordinate with impacted third parties.

NATURE OF THE LOAN PROGRAMS

This Plan considers best practices for administering and managing public agency loan programs. Loan program administration involves gathering specific information to assess the loan terms and the financial feasibility for the specific scenario of each loan borrower. These procedures apply to the following Former Redevelopment Agency loan programs:

1. First-Time Home Buyer Program
2. Citywide Employee Incentive Homeownership Program
3. Homeownership Retention and Loss Mitigation Program
4. Inclusionary Housing Homeownership Program
5. Home Emergency Repair Program
6. Revitalization and Beautification Program
7. Business Development Loan Program (Commercial)

Six of the loan programs are housing loan programs and the seventh is the Business Development Loan Program. Sections 3 through 11 of this Plan apply to the housing loan programs. Section 12 applies to the Business Development Loan Program. Section 2 describes the key terms and definitions used in this Plan.

2 KEY TERMS & DEFINITIONS

Agency - shall mean the Redevelopment Agency of the City of Hercules.

AMI – shall mean the Area Median Income as established annually by the Department of Housing and Community Development.

BEGIN – shall mean the Building Equity and Growth in Neighborhoods (BEGIN) Program administered by HCD

Borrower – shall mean the persons on the City the loan that borrowed funding.

City – shall mean the City of Hercules a local government of a city.

City Loan Agreements – shall mean the agreement executed between the former Agency and the borrower/participants that secured any type of funding from the Agency.

City Loan Programs – shall mean existing loan programs in Section 3.

County Housing Authority – shall mean the Contra Costa County Housing Authority

Deed of Trust - shall mean the deed of trust securing the Note and the City's agreement and recorded in a second lien position against the Residence, subordinate only to the First Lender's Deed of Trust.

Eligible Buyer – shall mean persons interested in purchasing real property and subject to restrictions from the City's agreements.

Eligible Persons – shall mean persons meeting the criteria for any type of loan modification.

Eligible Purchaser – shall mean a purchaser meeting the requirements of the City's Loan agreement.

Eligible Transfer - shall mean a transfer of the Residence meeting the requirements City's Loan agreement.

Equity Sharing Amount – shall mean the description in Section 3.

Fair Market Value – shall mean the value of the Residence as determined by an appraisal.

First Lender – shall mean the holder of the note evidencing the First Lender's Loan.

First Lender's Loan - shall mean the First Lender's loan arranged by the Originator to the Owner for the purchase of the Residence.

Former Redevelopment Agency – shall mean the former Hercules Redevelopment Agency

Hardship – shall mean the Borrower may be experiencing financial difficulties due to loss of income, medical emergencies, divorce or separation, natural disasters, and death of a household member with a primary income earner.

HCD – shall mean the State of California Department of Housing and Community Development.

Homeowner - shall mean the owner named in the initial clauses of the City's Agreement.

Housing Successor – shall mean the City of Hercules as the Housing Successor to the Hercules Redevelopment Agency

HUD - shall mean the United States Department of Housing and Urban Development.

Note – shall mean the promissory note and loan agreement executed by the homeowner in favor of the Agency, evidencing the deferred second mortgage in connection with the homeowner's purchase of the Residence and dated.

Participant – shall mean the persons identified in the City's Loan Agreement.

Purchase Price – shall mean the maximum sales price that the Homeowner may receive for any transfer of the Residence.

Residence – shall mean the location of the homeowner's certain real property identified in the City's agreements.

Transfer – shall mean the description in Section 3 below.

3 EXISTING LOANS

LOAN PROGRAMS

The City is responsible for servicing Former Redevelopment Agency loans. It is essential to ensure timely collection payments to minimize the City's risk from loans going into default. Currently, there are six City housing loan programs and one commercial loan program. Note there is an additional BEGIN housing loan program that is a State program and not subject to this Plan. Table 1 summarizes the loan programs.

Table 1: Loan Program Summary

Program	Highest Principal Loan	Term	Interest Rate	Security	# of Collectible Loans	Collectible Loan Balance (6/30/24)	Program Period
First-Time Homebuyer Program	$75,000	30 Years	3% simple interest; deferred initial 10 years	Principal Residence	15	$772,965	2004 - 2010
Citywide Employee Incentive Homeownership Program	$35,000	30 Years	0% interest; deferred initial 10 years	Principal Residence	3	$89,600	2004 - 2010
Homeownership Retention and Loss Mitigation Program	$456,460	30-45 Years	3-5% simple interest; no deferral period	Principal Residence	5	$1,848,001	2007 - 2010
Inclusionary Housing Homeownership Program	$135,000	40 Years	3% simple interest; deferred initial 20 years	Principal Residence	5	$675,000	2005 - 2009
Home Emergency Repair Program	$10,000	10 Years	3% simple interest; no deferral period	Principal Residence	0	$0	2001 - 2006
Revitalization and Beautification Program	$35,000	30 Years	3% simple interest; deferred initial 10 years	Principal Residence	7	$146,493	2006 - 2010

Program	Highest Principal Loan	Term	Interest Rate	Security	# of Collectible Loans	Collectible Loan Balance (6/30/24)	Program Period
Business Development Loan Program (Commercial)	$302,985	10-20 Years	2-5% simple interest; no deferral period	Residential Property or Business Equipment	5	$392,333	2007 - 2010
TOTAL							
Housing					35	$3,532,059	
Business					5	$392,333	
All Loans					**40**	**$3,924,392**	
Note: Excludes BEGIN Homeownership Program administered by HCD and uncollectible loans written off by City Council in July 2024							

LOAN ACCELERATION TERMS

Housing Loans

The intent of the six housing loan programs was to facilitate homeownership and property maintenance for low to moderate income borrowers. All housing loans have terms and conditions that must be adhered to during the term of the loan. All housing loan programs have the following terms and conditions that must be complied with, or the loan will become due and payable:

1. Sale or transfer of the Property, including, without limitation, lease, exchange or other disposition of Property or any interest therein, whether voluntary or involuntary, except a sale or transfer under federal law, would not, by itself, permit the exercise of a due on sale or due on encumbrance clause;

2. Participant refinances the loan or lien or encumbrance to which the Deed of Trust is subordinate for a loan amount in excess of the then-current loan balance secured by such loan, lien or encumbrance;

3. Participant fails to occupy the Property as Participants principal residence or is in default of any other obligation under this Agreement.

Employment Requirement

One of the housing loan programs, the Citywide Employee Incentive Homeownership Program, included employment provisions in which a change of employment status could trigger the acceleration of the loan. The loan will be due and payable if one of the following occurs:

1. Participant ceases to be employed with one of the selected job categories.

2. Participant ceases to provide employment services within the corporate boundaries for the benefit of the citizens of the City that Hercules.

Equity Share Provision

Four of the housing loan programs include an equity share provisions upon acceleration. These four programs that include an equity share requirement include:

- First-Time Homebuyer
- Citywide Employee Incentive Homeownership Program
- Homeownership Retention and Loss Mitigation Program
- Inclusionary Housing Homeownership Program

The equity share provisions are invoked upon sale, transfer or refinancing of the property or other event of acceleration requiring the Note Amount and all other payments prior to the thirtieth (30^{th}) anniversary date of the respective agreement.

The Equity Sharing Amount means an amount equal to a percentage share of the appreciation in the value of the property, determined by multiplying a percentage factor, the Applicable Factor, by the difference between the Sales Price and the Purchase Price. The Applicable Factor shall be calculated by dividing the Note Amount by the Purchase Price. For example, if the Note Amount equals $20,000 and the Purchase Price equals $100,000 the Applicable Factor equals 20%. The Equity Sharing Amount would then be equal to 20% times the Sales Price minus $100,000.

The Equity Share Amount varies by loan, and it is important to review the respective documents to ensure proper calculation. There are also additional provisions within the respective loan program documents that should be reviewed.

Two of the housing loan programs (Home Emergency Repair Program and the Revitalization and Beautification Loan Program) do not have provisions for equity sharing. This implies borrowers may retain all net sales proceeds after paying off outstanding loans on their property.

Eligible Buyer

Four housing loan programs (First-Time Homebuyer, Citywide Employee Incentive, Homeownership Retention and Loss Mitigation, and the Inclusionary Housing) permit the sale of the home to an eligible buyer. The City would need to confirm resale restrictions in each agreement. Major provisions are summarized below.

The eligible buyer must be a first-time homebuyer. A first-time homebuyer is defined as a homebuyer who has not had an ownership interest in residential real estate at any time during the three years preceding the date of the purchase of the property.

The eligible buyer shall certify that they will occupy the Residence as his or her principal residence during the term of the resale restriction agreement and that they will fully cooperate with the City in providing all information requested in monitoring the proposed buyer’s compliance with the resale restriction agreement.

The combined maximum income for all household members of the purchaser shall not exceed one hundred twenty percent (120%) of the median yearly income adjusted for household size, for a household in Contra Costa County as published by the California Department of Housing and Community Development ("HCD"). In the event such income determinations are no longer published by HCD or are not updated for a period of at least eighteen months, the City shall provide other income determinations, that are reasonably similar concerning method of calculation to those previously published by HCD.

If the borrower sells the property to an eligible buyer of Low to Moderate Income, as defined by Section 50093 of the California Health and Safety Code and the Monthly Housing Costs payable by the eligible buyer do not exceed and “Affordable Housing Costs” as defined by Section 50052.5 California Health and Safety Code, then the Equity Share Amount is not due and payable to the City. The eligible buyer would assume the existing note together with accrued interest. The City needs to work with the potential buyer and confirm eligibility.

The two housing loan programs that do not permit the sale to an eligible buyer (Home Emergency Repair and Revitalization and Beautification Programs) are required to repay the outstanding loan balance at time of sale.

Eligible Transfer

For those programs which allow the transfer to an Eligible Buyer, the Homeowner must provide the following to the City:

1. Transfer of the Residence must meet the requirements under Eligible Buyer.

2. Provide the name, address, and telephone number in writing of the Eligible Buyer

3. A signed financial statement of the proposed Eligible Buyer in a form acceptable to the City and any other supporting documentation requested by the City. The financial information shall be used by the City to determine the income eligibility of the Eligible Buyer.

4. The proposed sales contract and all other related documents, with all the terms of the sale of the Residence as described in the resale and restrictions agreement to the applicable loan program.

5. A written certification, from the Homeowner and the Eligible Buyer in a form acceptable to the City that the sale shall be closed by the terms of the sales contract and other documents submitted to the approved by the City. The certification shall follow the resale restrictions requirements.

6. An executed resale restriction agreement and option to purchase, deed of trust and a promissory note from the Eligible Buyer with terms acceptable to the City executed by applicable parties. The recordation of the new deed of trust and resale restriction agreement and option to purchase shall be a condition of the City's approval of the proposed sale. The City may require the Eligible Buyer to pay a reasonable fee to the Agency and reimburse it for out-of-pocket costs to cover the costs of administering its rights and obligations under this Agreement.

Upon the close of the proposed sale, the Homeowner and/or Eligible Buyer shall provide the City with the original promissory note, certified copies of the recorded deed of trust and resale restriction agreement, a copy of the recorded assumption agreement, a copy of the final sales contract, settlement statement, escrow instruction, and any other documents which the City may reasonably request.

Other Eligible Transfers

The acceleration clause will not be invoked if the transfer of property occurs as the result of marriage, divorce, incompetence or death of one or more individuals constituting the Participant so long as the City receives notice per the timeframe called out in the respective program documents. Additionally, the eligible Transferee must assume the Participant's obligation under their respective agreement by executing an Assignment and Assumption Agreement to be provided by the City at the request of the Participant.

The City may waive the acceleration clause at its sole absolute discretion and defer repayment or extend the terms of the note amount. The Borrower may, upon written approval of the City, refinance the First Lien for a loan amount equal to or less than the current loan balance secured by the First Lien.

Table 2 summarizes the applicability of the acceleration provisions by program.

Table 2: Loan Acceleration Provisions

Program	Sale or Transfer	Refinance	Failure to Occupy as Principal Residence	Equity Share Upon Accel-eration	Employment Requirement	Sale to Eligible Party at Affordable Housing Costs	Eligible Transfer Notification Requirement	Waiver of Acceleration Clause
First-Time Homebuyer	Yes	Yes	Yes	Yes	No	Yes	45 Days	Yes
Citywide Employee Incentive Homeownership Program	Yes	Yes	Yes	Yes	Yes	Yes	45 Days	Yes
Homeownership Retention and Loss Mitigation Program	Yes	Yes	Yes	Yes	No	Yes	45 Days	Yes
Inclusionary Housing Homeownership Program	Yes	Yes	Yes	Yes	No	Yes	45 Days	Yes
Home Emergency Repair Program	Yes	Yes	Yes	No	No	No	30 Days	Yes
Revitalization and Beautification Program	Yes	Yes	Yes	No	No	No	30 Days	Yes

4 DELINQUENT LOAN MODIFICATION

All program participants are eligible for a loan modification if they meet certain criteria. To be eligible for a loan modification, the borrower must be an owner-occupant of the home, be at least one month behind on their mortgage payment, or be at imminent risk of falling behind. The borrower must demonstrate sufficient income to make the modified payment and ensure the modification is sustainable. The borrower must provide documentation to support their financial hardship and income such as pay stubs, tax returns, bank statements, disability claims or other appropriate documentation.

Three categories of borrowers would be eligible for a loan modification due to delinquency:

- Redevelopment Dissolution Related Delinquency
- Long-term Financial Hardship
- Short-Term Financial Hardship

SPECIAL TREATMENT FOR DELINQUENCIES BETWEEN 2011 AND 2024

The City reinitiated Former Redevelopment Agency loan program administration in 2024. During the lapse in loan servicing, from 2011 to 2024, several borrowers did not receive regular monthly loan statements or notices, and delinquencies were not pursued by either the City or the County's Housing Authority.

If a borrower has fallen behind on payments for this reason, the City is willing to restructure the loan as long as the property is their primary residence and they have not refinanced the loan or lien or encumbrance to which the City's Deed of Trust is subordinate for a loan amount over the then-current loan balance secured. The borrower may apply to restructure their loan. The City will:

- Underwrite new terms of the loan by incorporating the accrued unpaid interest into the principal balance, extend the term of the loan based on the number of payments missed, and reset the monthly payment accordingly.

- Existing principal, interest and payment to remain as originally underwritten and extend the loan term to recapture unpaid accrued interest.

LONG-TERM FINANCIAL HARDSHIP

For borrowers who have become delinquent due to long-term financial hardship that has reduced their income and ability to make the monthly loan payments for more than twelve (12) months, the City is willing to undertake a loan modification so the borrower can retain their primary residence and the City will be able to realize repayment of its investment. The borrower must demonstrate a financial hardship that is long-term in nature. Financial hardship includes loss of income, long-term illness, disability, or other circumstances that impact the borrower's ability to make loan payments. To qualify for consideration, the borrower must demonstrate a hardship where their financial wherewithal has been permanently impacted, they cannot make any mortgage payments, and the City loan must be in a second security position.

- The City will transition the loan from a performing loan to a deferred loan where the principal and accrued interest, if applicable, are due at refinance, time of sale or title transfer. Due to the long term nature of the documented financial hardship, interest will cease to accrue and the amount due will be set as the principal and outstanding accrued interest as of the date the hardship was approved. If there is insufficient equity at the time the triggering event when repayment occurs, the City, at its sole and absolute discretion, may accept the available equity as payment in full.

- For properties with insufficient equity to satisfy the loan, the City, at its sole and absolute discretion, may reduce or eliminate the accrued interest, reduce the 3% interest loans to 0%, or some combination thereof. If there still is insufficient equity, the City may choose to reduce the principal and any accrued interest to ensure a portion of the City investment is recaptured. The borrower will be issued a 1099-C, Cancellation of Debt, and the value of the reduced obligation will be reported to the IRS as income.

SHORT-TERM FINANCIAL HARDSHIP

During the course of the loan term, if the borrower encounters a short-term financial hardship that has reduced their income and ability to make the monthly loan payments for twelve (12) months or less, the City is willing to implement one of the following options:

- Forbearance: a temporary pause in loan or reduction in payments. Interest, if applicable, will continue to accrue on the loan balance. Forbearance provides temporary relief due to temporary financial difficulties. The borrower will then commence monthly payments. The unpaid installments will be moved to the end of the loan and a balloon payment will be due at the end of term.

- Deferment: postpone overdue payments until the end of the loan term. The repayment period would be extended based on the number of loan payments missed.

5 REFINANCE, ASSIGNMENT AND ASSUMPTION, AND LOAN CONSOLIDATION

There are several factors that can trigger an action by the City to review and approve new loan documents which is applicable to all of the City's home loan programs. This could be due to the borrower requesting to refinance their first deed of trust, assignment and assumptions due to a change in ownership that meets the City's criteria, delinquency due to hardship or because no jurisdiction has administered the home loan programs since 2011.

All City loans are required to be in the second position behind the first deed of trust and there needs to be sufficient equity to service the mortgages secured by the property. Additionally, the borrower must be compliant with all terms of the respective loan program.

REFINANCE

For borrowers who are current on the City mortgage and want to refinance their first deed of trust, the City will subordinate the City Loan in accordance with the respective loan program agreement terms. To subordinate the City Loan to a deed of trust securing a refinanced First Mortgage Loan, the principal amount of all debt secured by the property must not exceed ninety percent (90%) of the Maximum Sales Price as determined by the borrower's agreement. The City's Deed Of Trust must be in a second position. Per the loan agreement, the borrower is limited on pulling out equity and increasing the loan amount secured by the first deed of trust. However, if the borrower wants to refinance and pull out equity, they must repay the City loan.

Other refinance terms will be reviewed based on the loan agreement requirements. If the loan requires payoff, the City may provide or issue a deed of reconveyance and surrender the secured Deed of Trust after confirming the loan is paid in full. The City will have its own template to provide a Deed of Reconveyance, once the loan is paid in full. The Borrower will be responsible for any costs incurred for such request.

ASSIGNMENT AND ASSUMPTION

If there is a transfer of property as the result of marriage, divorce, incompetence or death of one or more individuals constituting the borrower, the party must notify the City per the timeframe articulated in the respective program's promissory note. The party(ies) must provide proof of the action that triggered the assignment and assumption clause, such as a marriage certificate, divorce decree, power of attorney (incompetence) or death certificate. Additionally, the eligible Transferee must assume the obligation under their respective agreement by executing an Assignment and Assumption Agreement to be provided by the City at the request of the Participant.

LOAN CONSOLIDATION OF MULTIPLE LOANS TO ONE BORROWER

Some borrowers have received funding from more than one City loan program. The City is willing to consolidate the existing loans. The terms of the loan will be dependent upon the borrower's mortgage status. If the borrower is delinquent, the City needs to determine if it is due to long-term hardship, short-term hardship, or the City's delay in loan servicing.

The City will consider reviewing all requests on a case-by-case basis. Typically, a request will include the following criteria. A City representative will review all cases within 7-10 business days and will respond with any considerations.

1. A Letter explaining the request for the loan changes.

2. If applicable, third party (Escrow of Title) requests for refinancing or pay-off demand.

6 APPLICATION PROCESS – LOAN MODIFICATION

ELIGIBILITY CRITERIA

To be eligible for loan restructuring due to hardship, the borrower must meet the hardship and eligibility criteria. This may include but is not limited to experiencing financial difficulties due to circumstances from loss of income, medical emergencies, divorce or separation, natural disasters, and death of a household member with a primary income earner. The applicant must demonstrate hardship by providing the following:

1. A letter detailing how financial hardship prevents the borrower from making scheduled loan payments, including any recently encountered conditions such as unemployment status, loss of employment, medical emergency, pandemic moratoriums, loss of other public assistance, or other circumstances.
2. Proof of income, if applicable (see Table 3: Income Documentation List)
3. Financial statements (see Table 3: Income Documentation List)
4. Credit Report

Additionally, Homeowners must confirm the following criteria:

1. The property purchased with the City loan <u>must</u> be their principal place of residence. They may not own any other properties to be considered for hardship. Borrowers must demonstrate proof of residency by providing documents such as a current utility statement confirming the homeowner's current address and signing a statement certifying owner occupancy. In addition, the City will review a preliminary title report to confirm that the borrower(s) holds title to the subject property.
2. Must not have cash or assets (excluding savings in a retirement account) that are equal to or greater than the relief funds needed or $20,000.
3. Must demonstrate that they have a minimum of 3 months of late payments.

LOAN APPLICATION PROCESS

Loan applications will be reviewed for eligibility and will require 7-10 business days to review once submitted to the City or its representatives to verify eligibility. All loan applications must have the required documents listed in the application checklist (to be provided with the application). Incomplete loan applications will not be processed. A representative will provide notification and the status of the application to the applicants. The City reserves the right to charge a loan application fee to process the loan application (to be specified in the loan application).

INCOME DOCUMENTATION CHECKLIST

Table 3 lists income documents required for the hardship application process. Documents are required for all household members that are employed and age 18 and older.

Table 3: Income Documentation Checklist

Applicable Source	Income Documents Needed
Homeowner	1. Letter of explanation demonstrating Hardship 2. Proof of income 3. Proof of financial statements 4. Most recent credit report for all three credit bureaus
If Employed as Wage Earners	5. Copy of 2 months of most recent consecutive paystubs for all wage earners (for each adult household member employed) who receives wages, salary, overtime pay, commissions, fees, tips and or other compensation. 6. Copy of most recent year's Federal Income Tax Return with all schedules and attachments for household members employed.
If Self Employed	If applicable, please provide Form 1040/1040A with Schedule C, E, or F, and financial business statement(s).
If Not-Self- Employed	Please complete the self-affidavit form of non-employment (see attached form).
Other Assets	Please provide a copy of 2 months of most recent consecutive bank statements for all applicable types of account: ○ Checking ○ Savings ○ Certificate of Deposit ○ Annuities ○ Trust ○ Stocks ○ Bonds, etc.

7 UNDERWRITING REQUIREMENTS

The City will have the option to evaluate the loan application to consider any financial hardship, loan modification, or other circumstances that are deemed necessary to review any loan request.

The City shall consider a combination of the following criteria to determine if the request is granted:

1. A letter of explanation demonstrating financial hardship. Any stated information regarding income or assets must be verified, and the letter must explain reasons for difficulty making loan payments.
2. The household gross income must be 120% AMI or below (see current published HCD income limits) and demonstrate hardship. All income and asset documentation must be included in the loan application.
3. The borrower may not own any other properties other than their primary residence.
4. Loan payments must be delinquent for at least 3 months and must be verifiable.
5. Employment status must be considered and evaluated. If applicable, employment must be verifiable and current.
6. The mortgage payment to income ratio must be above 35% to demonstrate difficulty in paying and managing other financial obligations. The City shall divide the mortgage payment by the monthly gross income multiplied by 100 to calculate the percentage. For example:
    a. Monthly Mortgage Payment (with an escrow account or impounds of taxes and insurance): $2,000
    b. Gross monthly income is: $4,500
    c. $2,000 / $4,500 x 100 = 44%
7. Any new loan conditions must be based on the borrower's ability to pay and be below the 35% ratio.
8. The City shall review a credit report from all three credit bureaus. FICO score must be considered poor ranging from 300 to 579. Poor credit scores indicate missed payments, high credit utilization, defaulting on loans or having a limited credit history. In cases where there is no FICO score, non-traditional credit may be acceptable. Such as other timeliness of other monthly payments in cases of utilities, insurance, and other similar non-binding credit reporting. Credit ranges based on the Equifax credit bureau are as follows:
    a. Exceptional range: 800-850
    b. Very Good range: 740-799
    c. Good range: 670 – 739
    d. Fair range: 580 – 669
    e. Poor range: 300 – 579

8 LOAN SERVICING

City staff will process loan invoices monthly to ensure timely receipt of loan payments. The loan invoicing procedure will include clear and accurate information on the invoice for each loan to avoid confusion and borrower disputes. The loan invoicing process should include:

- A review of individual loan terms and the payment schedule for each loan
- Adequate notice by the 3rd week of the month to ensure mailing by the 1st day of the month.
- The invoicing template should include:
    - Loan terms or loan balance
    - Borrower Name and Address
    - Identification of type of loan
    - Payment amount
    - Due date
    - Details such as principal, interest and additional fees or outstanding payments
    - Instructions on how loan payment should be received either by mail to the City Address and Department or loan portal for online payments
- A reconciliation of loan payments and issue, if necessary, loan confirmation with each invoice. Update any loan records to reflect the loan balance.
- Issue annually to each borrower 1098 year-end statements (mortgage interest deduction).

9 HOMEOWNERSHIP COMPLIANCE

According to the loan agreements issued for homeownership loans, the homeowner must occupy their home as their primary residence; borrowers are not permitted to rent their properties to a third party. The City will monitor occupancy by taking the following steps:

1. Prepare a database to track and organize all the homeownership units that are being monitored. The database will include columns such as:
    - Homeowner name
    - Property address
    - Document form names (corresponding to the monitoring)
    - Dates of mailed forms, data collected, completed forms and confirmation of close-out
    - Compliance status
    - Other activities corresponding to the controlling agreement
2. Prepare a notification letter that outlines the documentation requesting the annual monitoring process, including language to have the homeowner provide supporting documentation of unit occupancy such as:
    - Recertification forms for proof of occupancy, completed and signed by the homeowner
    - Have the homeowner provide a current utility statement, identifying them as the homeowner in the statement.
3. Mail the notices, collect all documents, and send out confirmation letters to the homeowners to close the monitoring.

10 NOTICE OF DEFAULT AND FORECLOSURE

NOTICE OF DEFAULT

Each respective loan program has a similar default provision language. A portion of the standard language describing default is as follows:

> Failure or delay by either party to perform any term or provisions of this Agreement which is not cured within thirty (30) days after receipt of notice from the other party constitutes a default under this Agreement; provided, however, if such default is of the nature requiring more than thirty (30) days to cure, the defaulting party shall avoid default hereunder by commencing to cure within such thirty (30) day period, and thereafter diligently pursuing such cure to completion.

There are a number of terms within the respective agreements which would cause acceleration and issuance of a notice of default. The following events typically constitutes a default under the various City programs. However, it is important to review the respective loan program agreements, as they vary.

- Owner/Borrower made misrepresentations
- Owner fails to occupy the home and cure default within sixty (60) days of receiving City notice
- Transfer of property in violation of agreement
- Owner fails to comply with terms of agreement
- Notice of Default issued by First Mortgage Lender or other financing secured by the property
- Lien recorded against property by a non-bona fide mortgage loan

Upon monthly payment status, annual compliance review, or other notice received from lenders or other parties, the City will issue a Notice of Default to commence the 30-day cure period to protect the City's investment.

If the homeowner has a first mortgage with a deed of trust insured by HUD that is secured by the property, and the homeowner is undergoing consideration by HUD for assignment forbearance relief or the homeowner is undergoing consideration for relief under HUD's Temporary Mortgage Assistance Payment program, the City will not exercise its Option on Default.

Lender Notice of Default

If the Borrower defaults on the First Mortgage Lender or other entity with a real property lien, the City has reserved the right to cure the default and redeem the home. This is not a requirement but an option the City may pursue.

Alternatively, if a creditor acquires title to the property through a deed in lieu of foreclosure, trustee’s deed upon sale, or otherwise, the Owner is not entitled to the proceeds of the sale to the extent that any excess proceeds can be utilized to retire a portion of the City loan balance.

FORECLOSURE

If the borrower does not comply with the terms of the loan and the City has complied with the issuance of a notice of default, the City may initiate foreclosure. In California, the residential foreclosure process primarily follows a non-judicial foreclosure route, which means it typically doesn't go through the court system.

1. The lender or trustee records a notice of default in the county recorder's office and mails a copy to the borrower within ten business days.
2. The notice of default gives the borrower three months to reinstate the loan (bring it current).
3. The notice informs the borrower of the total amount owed, including missed payments and foreclosure fees.
4. The borrower will have 90 days from the date the notice of default is recorded to pay the owed amount to the lender.

The process begins when a borrower defaults on their mortgage payments (typically after missing at least three months of payments).

1. Default Notice

- **Notice of Default (NOD)**: After a 30-day period, the lender may issue a Notice of Default. This formal document notifies the borrower that they are in default and gives them a chance to cure the default by catching up on missed payments, usually within 90 days.

2. Reinstatement Period

- The borrower has 90 days from the Notice of Default to cure the delinquency. During this period, the borrower can reinstate the loan by paying the overdue amounts, including fees and interest.

3. Notice of Trustee’s Sale

- If the borrower fails to catch up on payments, the lender can issue a **Notice of Trustee’s Sale** after the 90-day reinstatement period. This notice is recorded with the county and typically gives at least 21 days' notice before the sale date.
- The sale date, time, and location are listed, and the property may be sold to the highest bidder at a public auction.

4. Trustee’s Sale (Foreclosure Auction)

- The property is sold at a public auction. The lender typically starts the bidding with a credit bid (the amount the borrower owes, plus costs). If no one outbids the lender, the property goes back to the lender as **Real Estate Owned (REO)**.

5. Post-Sale Eviction

- If the borrower is still living in the property after the sale, they may receive a notice to vacate, and the new owner (whether the lender or a third-party buyer) can file for an eviction if necessary.

Key Points:

- **Non-Judicial vs. Judicial Foreclosure**: Most foreclosures in California are non-judicial, meaning they don't involve the court. Judicial foreclosures are rare and involve the lender suing in court for the foreclosure.
- **Right of Redemption**: In non-judicial foreclosures, there is no right of redemption after the sale, meaning the borrower cannot reclaim the property after it has been sold at auction.
- **Loan Modifications & Alternatives**: Borrowers in default may explore loan modifications, short sales, or deeds in lieu of foreclosure as alternatives to foreclosure.

11 BUSINESS DEVELOPMENT LOAN PROGRAM

The Former Redevelopment Agency created the Business Development Loan Program ("Program") to assist business owners and operators to increase, improve and preserve local businesses. The loans ranged from $25,600 to $2,000,000 and were secured by business equipment or a first or second deed of trust on real property.

LOAN ACCELERATION

Loan acceleration occurs if the Borrower *meets* one or more of the following items:

- Sells or transfers the Property and/or Business Equipment, including without limitations, exchange or other disposition of the Property and/or Business Equipment or *any* interest therein, whether voluntary or involuntary, except a sale or transfer which under federal law would not, by itself, permit the exercise of the acceleration clause.

- Borrower refinances the lien of the Agency Deed of Trust or any lien or encumbrance to which the Agency Deed of Trust is subordinate for loan amount *more than* the then current loan balance and secured by the lien or encumbrance.

ELIGIBLE TRANSFERS

The acceleration clause will not apply if the borrower transfers the Property and/or Business Equipment due to marriage, divorce, incompetence or death, as long as the Borrower provides thirty (30) days' notice to City. The City also reserves the right, at its sole and absolute discretion, to not invoke acceleration and either defer repayment or extend the term of the Note,

COLLATERAL SUBSTITUTION

The participant must notify the City no less than thirty (30) days in advance that they are undertaking one of the following:

- Sale of the Property and/or Business Equipment
- Transfer, exchange or dispose of any interest in the Property and/or Business Equipment
- Refinancing of the Property that secures the City's Deed of Trust lien
- Close of the Borrower's probate estate

The City has seven (7) business days to respond to the Borrower and identify an appropriate collateral substitution. Based on the proposed collateral and its acceptability in meeting the underwriting and securitizing the loan, the City will inform the Borrower if the proposed collateral is acceptable. Thereafter, the City will prepare the respective documentation, Deed of Trust or UCC-1 Financing Statement, complete the necessary paperwork to release the original collateral.

COMPLIANCE MONITORING

Annually the City will issue a letter to the Borrower requesting certification of the following:

1. Business Ownership (open or closed)
2. General Liability Insurance (for businesses remaining in operation)
3. Collateral ownership status
4. Collateral has not been refinanced and the City's position is intact

OTHER PROVISIONS

All other Program administrative provisions will follow the Housing Loan Program as articulated below:

- Delinquent Loan Modification (see page 1)
- Refinance, Assignment & Assumption, and Loan Consolidation (see page 3)
- Application Process (see page 5)
- Loan Servicing (see page 8)
- Notice of Default and Foreclosure (see page 10)