

BEGIN

*Building Equity and
Growth in Neighborhoods*

Operations Handbook



Edmund G. Brown Jr., Governor
State of California

Cathy E. Creswell, Acting Director
Department of Housing and
Community Development

Revised July 2011

DIVISION OF FINANCIAL ASSISTANCE

Chris Westlake, Deputy Director

BEGIN PROGRAM

Building Equity and Growth in Neighborhoods

Sabrina Sassman, Section Chief

Coral Gaines, Program Manager

Program Representatives

Eleanor Contryman
Arturo Rodriguez
Heriberto Rosales

Program Support

Lagrimas Dalisay

Department of Housing and Community Development
Post Office Box 952054
Sacramento, California 94252-2054
(916) 327-3632
Website [hhhp://www.hcd.ca.gov](http://www.hcd.ca.gov)

**BEGIN Operations Handbook
2011
Table of Contents**

I. Introduction..... 1

II. Standard Agreement 3

III. Recipient Program Guidelines..... 6

IV. Income Qualifying 8

V. FTHB Loan Underwriting..... 14

VI. FTHB Loan Closing..... 22

VII. Disbursement Procedures..... 25

VIII. Loan Servicing 28

IX. Reuse Account..... 29

X. Performance Reporting 31

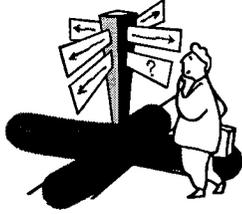
XI. Monitoring 33

XII. Forms

XIII. Sample Documents

XIV. Appendix

BEGIN Program Guidelines located on website at hcd.ca.gov/fa/begin



I. Introduction to the BEGIN Operations Handbook

The BEGIN Program was established and described in Chapter 14.5, Sections 50860 through 50866 of Part 2 of Division 31, Health and Safety Code. The BEGIN Program is a homeownership program designed to make grants to qualifying cities and counties that provide incentives or reduces or removes regulatory barriers for housing developments, as set forth in the BEGIN Program Guidelines. These grants shall be used for down payment assistance in the form of loans to qualifying first-time homebuyers of low-and moderate-incomes purchasing newly constructed homes in a BEGIN Program project. BEGIN Program Guidelines were adopted on December 11, 2003 and revised on January 12, 2011. Some of the terms used in the BEGIN Program have specific meanings defined by the Program Guidelines and definitions have been included in Chapter XIV. Appendix.

The goal of the BEGIN Program Operations Handbook (“Handbook”) is to help the Recipient manage their BEGIN Program Standard Agreement with success. The Handbook contains information on BEGIN Program compliance and necessary forms. It also contains information and forms that are not necessarily Program-required, but are provided in the hope that Recipients will find them useful and informative.

The Handbook begins with a description of the Standard Agreement components and is followed by Program Guidelines. Income-eligibility is a crucial determination in the BEGIN Program. Chapter IV. Income Qualifying, is devoted entirely to this subject.

The task of producing quality loans demands, that the balance between the “science” of gathering information, analyzing risk, and the “art” of making a judgment that gives the homebuyer every possible consideration for success. When that balance is maintained, quality loans that meet homebuyers financing needs are achieved.

In the following chapter the required BEGIN Program loan terms are explained. In addition, the Handbook also points out “best practices” in underwriting of downpayment assistance loans and for loan closing procedures. The Handbook also gives some insight into working with a first lien position lender and how the Recipient might structure their BEGIN Program.

Of course, Recipients want to know how to access the funds they have been awarded. Chapter VII. Disbursement Procedures, covers the procedures and requirements in detail. As there are quarterly and annual reporting requirements, the Recipient will find information on those requirements in Chapter X. Performance Reporting.

As the Program will result in long-term responsibilities, there are Chapters on Loan Servicing, the BEGIN Program Reuse Account requirements and monitoring of the

Recipient's activities and accounts by HCD, both during and after the Standard Agreement period.

After the narrative section of the Handbook there are sections for:

Appendices - This includes what is included and excluded from the calculation of income.

Forms – These are forms specifically required in the operation of the Recipient's program, i.e.; draw request forms; homebuyer summary forms; and reporting forms.

Sample Documents - This includes forms that are not Program-required, but may be useful in the operation of the Recipient's program. Other important reference material is included in this section.

Program Guidelines – Included here for reference and to have all program related information available in this one book.

Management Memos – As the need arises, the Department will send out Management Memos regarding changes to the BEGIN Program, procedures and forms, etc. These memos may provide answers to commonly asked questions that arise, or any other information we feel is useful and important to Recipients.

II. THE STANDARD AGREEMENT

1. Introduction

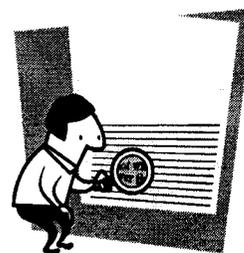
After the Department of Housing and Community Development (HCD) issues an award under the BEGIN Program, Standard Agreements (contracts) are required. "Standard Agreement" is the term the State of California uses when the State enters into a funding contract with another party. In the Standard Agreement, HCD is referred to as the "State" and the award recipient is referred to as the "Contractor". However, under the Program Guidelines and in this Handbook, entities who receive a BEGIN Program award are referred to as the "Recipient".

Included in all Standard Agreements are the following parts:

- A. The main Standard Agreement document contains boilerplate (standard) contract language that applies to every Recipient.
- B. Exhibit A - contains information specific to each Recipient's Standard Agreement; i.e., amount of the funds, deadlines, reporting requirements, and language binding the Recipient to the requirements of the BEGIN Program. It also contains any special conditions ("Special Conditions") that apply to one or more of the Recipients, but may not apply to all of the Recipients. If there are no special conditions that apply to a Recipient, this area of the form will state "none".
- C. Exhibit B - contains budget details and payment provisions.
- D. Exhibit C - contains State of California general terms and conditions applicable to all Recipients and is referenced only by GTC-610.
- E. Exhibit D - includes the BEGIN general terms and conditions applicable to all Recipients.

2. Standard Agreement Boilerplate

The language contained in the boilerplate is the same for every Recipient and contains standard State or BEGIN Program requirements. The only exception is the first page of the boilerplate that contains specific information relating to each Recipient and cites the BEGIN Program legislation.



- A. At the top right hand side of the first page is the Recipient's Standard Agreement number. This number is specific to each individual award.
- B. The Department's name is near the top left hand side followed by the Recipient's name.

- C. The term of the Standard Agreement is located under the Recipient's name.
- D. The amount of the Recipient's Award is located under the term of the Standard Agreement.
- E. There are signature blocks near the bottom of the first page for both the Department's authorized signator and the Recipient's authorized signator. The Department will sign the Standard Agreement after the Recipient's authorized signator has signed it. After full execution by both parties, the Recipient will receive an original, fully executed copy for their file.
- F. Note: The person, who signs the Standard Agreement on behalf of the Recipient, **must be the person or title-bearer named in the Recipient's authorizing resolution contained in their BEGIN Program application.** If the Recipient wishes to change the authorized person at any time, a new resolution will be required.
- G. In the lower right-hand corner of the page is a block with the words, "Department of General Services Use Only". There will be a stamp here with a date entered. This date is the effective or start date, of the Recipient's Standard Agreement.

3. **Exhibit A**

Exhibit A contains information specific to the Recipient's award and is spelled out in detail. Before the Recipient's authorized person signs the Standard Agreement, this section should be carefully reviewed to be sure it is correct.

- A. Section 1: This section states the authority and purpose of the Standard Agreement. This section also describes the BEGIN Program.
- B. Section 2: This section incorporates the Recipient's original application into the Standard Agreement. This section also cites the type of work to be performed, i.e., administration of a mortgage assistance program. It also discloses that the Recipient must perform the work in accordance with the BEGIN Program Guidelines and the NOFA under which the Recipient applied.
- C. Section 3: This section states the amount of the Standard Agreement by the activity for which the Recipient applied.
- D. Section 4: This section contains the expenditure and completion deadlines and the Standard Agreement expiration date. These are critical dates and the Recipient should be sure to keep these dates in mind as they plan their work under this Standard Agreement.

- E. Section 5: This section describes the coordinator of the Standard Agreement for the State and the address all documents should be mailed to.
- F. Section 6: This section gives instructions for any notice, report, or other communication required by the Standard Agreement, where it should be sent and to whom.
- G. Section 7: This section is used to spell out any requirements that apply just to a specific Recipient. These requirements are referred to as special conditions. If there are no special conditions, this section will state "None", meaning there are no additional specific requirements for that Recipient's Standard Agreement. It is important that the Recipient read and understand any special conditions with which they are required to comply, prior to signing the Standard Agreement.

4. Exhibit B

Exhibit B contains the budget detail and payment provisions.

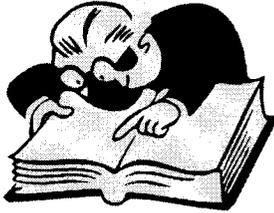
- A. This section explains how the disbursements to the Contractor will take place and the amount of funds that will be advanced at one time.
- B. This section explains that the Department may request copies of any documentation that is needed to complete the processing of the draw request.
- C. This section details what documents are required to be reviewed and approved by the Department prior to the first disbursement of funds.

5. Exhibit C

Exhibit C contains specific language regarding State overlay requirements, i.e., nondiscrimination; drug-free workplace; and union organizing. Basically this section includes citations of the State Requirements that apply to all of HCD's Standard Agreements.

6. Exhibit D

Exhibit D contains specific language regarding the Department's terms and conditions. i.e., effective date and commencement of work; amount and form of funding; permitted uses of funds; termination and breach; and insurance.



III. Recipient's Program Guidelines

The Health & Safety Code Section governing the BEGIN Program, 50860-50866 states that the BEGIN Program is a homeownership program designed to make grants to qualifying cities and counties that provide incentives or reduce or remove regulatory barriers for affordable housing developments, as set forth in the BEGIN Program Guidelines. These grants shall be used for downpayment assistance in the form of a deferred payment loan to qualifying first-time homebuyers of low- and moderate-income, who are purchasing newly constructed homes in a BEGIN Program project.

Your BEGIN Program contract requires that you prepare Program Guidelines governing your BEGIN Program. It is the Recipient's responsibility to provide to the Department for their review and approval, a copy of the Recipient's Program Guidelines. If the Recipient has existing first-time homebuyer loan program guidelines, the BEGIN Program loan requirements must be incorporated into them. The Program Guidelines should be a comprehensive and clearly written statement of your underwriting policies and procedures for mortgage assistance and should include the following items:

1. Mortgage Assistance Program

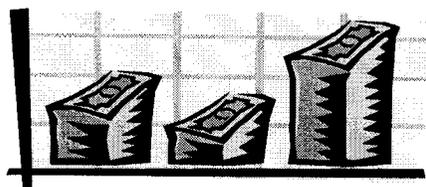
- A. Determining the eligibility of the applicant, including income eligibility.
- B. Underwriting requirements including the criteria for front and back ratios and credit criteria must be included.
- C. Maximum amount of the BEGIN Program assistance is 20% of the purchase price.
- D. A description of how the amount of subsidy will be determined for each qualified borrower up to the maximum assistance limit.
- E. Specify the allowable loan-to-value ratio that will be used.
- F. A description of the type of housing units allowed, i.e., single-family, duplexes, triplexes, four-plexes, condominiums, or manufactured housing, etc.
- G. Specific interest rate, one to three percent (1 to 3%).
- H. Source of data of the sales/value limits that will be set for the program.
- I. The causes of acceleration.
- J. Specify the terms of primary loans.
- K. Specify the terms of any subordinating financing.

2. Reviewed and Approved Documentation Requirements

Before any funds can be disbursed to the Recipient the following documents must have been reviewed and approved by the Department:

- A. Recipient's Program Guidelines for mortgage assistance incorporating BEGIN Program requirements. (In the Chapter XII. Forms - is a Program Guideline Check Sheet that should be used when submitting your program guidelines to HCD for review and approval.);
- B. Loan Servicing Plan;
- C. Reuse Account Plan;
- D. and, a 20 year BEGIN Program Monitoring Agreement will be required once the Loan Servicing and Reuse Plans have been approved by HCD. The Monitoring Agreement will be prepared by HCD and sent out for signature, then returned to HCD for signature and execution.

IV. Income Qualifying



1. What Income to Include

HCD requires the use of the following method for calculating household income. The BEGIN Program requires that the combined income of all members of the household (eighteen or older) who will be living in the unit must be included in the determination of income. Refer to Chapter XIV. Appendix, Gross Income Inclusions and Gross Income Exclusions, for further guidance pertaining to what types of incomes must be included or excluded when calculating gross annual income.

2. Projecting Future Income

The BEGIN Program requires that, for the purpose of determining eligibility for BEGIN Program assistance, the Recipient must project the household's annual income. To do so, a "snapshot" of the household's current circumstances is used to project future income. The Recipient should assume that today's circumstances will continue for the next 12 months, unless there is verifiable evidence to the contrary. For example, if a head of household is currently working for \$7.00 per hour, 40 hours per week, the Recipient should assume that this household member should continue to work at the same pay scale and hours for the next year. The estimated earnings would be \$7.00 per hour x 2,080 (40 hours a week x 52 weeks) hours or \$14,560 per year.

This method should be used even when it is not clear if the type of income received currently will continue in the coming year. For example, assume a household member has been receiving unemployment benefits of \$100 per month for 16 weeks at the time of income certification. It is unlikely that the unemployment will continue for another 52 weeks. However, because it is not known whether or when the household member will find employment, the Recipient should use the current circumstances to anticipate gross income. Income would therefore, be calculated as follows: \$100 per week x 52 weeks, or \$5,200 per year.

The exception to this rule is when documentation is provided that the current circumstances are about to change. For example, an employer might report that an employee currently makes \$7.50 an hour, but a negotiated union contract will increase that amount to \$8.25 in the next two months or if an employee is paid minimum wage and minimum wage has increased. In such cases, income should be calculated based on the information provided. In this example, the annual income calculation would be as follows:

$$\begin{aligned} & \$7.50/\text{hour} \times 40 \text{ hours/week} \times 8 \text{ weeks} = \$2,400 \\ & \$8.25/\text{hour} \times 40 \text{ hours/week} \times 44 \text{ weeks} = \$14,520 \\ & \$2,400 + \$14,520 = \$16,920 \end{aligned}$$

3. Verifying Income

The BEGIN Program requires that Recipients determine income eligibility of BEGIN Program applicants by examining source documents (i.e., wage statements, interest statements) evidencing gross income. Recipients should compare this gross annual income to the income the primary lender used when qualifying the BEGIN Program applicant's income eligibility. The first mortgage lender is usually underwriting to FHA Guidelines and may not calculate the household income or assets as required by the BEGIN Program but may qualify the borrower as a low- or moderate-income applicant. After the Recipient does the required calculation of assets that the BEGIN Program requires, the Recipient may find the household income is over the 80% (for low-income) or 120% (for moderate-income) county median income limit and is not eligible for BEGIN Program funds.

Recipients may develop their own verification procedures or they may use third party verification and review of documents. Under this form of verification, a third party (i.e., employer, Social Security Administration or public assistance agency) is contacted to provide information. Although written requests and responses are generally preferred, conversations with a third party are acceptable if documented through a memorandum to the file: naming the contact person; information conveyed; date of the call; and the signature of the Recipient. To conduct third-party verifications, a Recipient must obtain a written release from the household that authorizes the third-party to release the required information.

Third-party verifications are helpful because they provide independent verification of information and permit the Recipient to determine if any changes to current circumstances are anticipated. Third-party verifications should state whether or not overtime will continue, which may or may not help the homebuyer. Some third-party providers may be unwilling or unable to provide the needed information. If this should happen, other types of documentation can be used, such as paystubs and tax returns. Some third-party providers (such as banks) may charge a fee to provide the information. In such cases the Recipient should attempt to find suitable documentation without the third-party verification. For example, use the past three month's worth of bank statements or a savings passbook that shows at least three months of savings.

4. Review of Documents

Documents provided by the applicant (i.e., paystubs, tax returns, etc.) may be the most appropriate for certain types of income and can be used as an alternative to a written third-party verification. Although easier to obtain than written third-party verification, a review of these documents often does not provide much needed information. For instance, the applicant's paystubs may not provide sufficient information about the average number of hours worked, overtime, tips and bonuses, if any. The paystub won't state whether the overtime will continue or not.

5. Assessing Information

At first glance, the income information may seem very basic. Recipients must assess all the facts underlying the income information collected. Below are some of the considerations Recipients should take into account.

It is important to understand the basis on which employees are paid (hourly, weekly, or monthly, and with or without overtime or bonuses or if on commission). An employee who gets paid "twice a month" may actually be paid twice a month (24 times a year) or every two weeks (26 times a year).

It is important to clarify whether overtime is sporadic or a predictable component of an employee's income.

An annual salary is counted as annual income regardless of the payment schedule. For example, if a teacher's annual salary is \$30,000, this is the annual income regardless if the teacher is paid over a 9- or 12- month period.

6. Determining Household Size

The income limits are adjusted by household size. One of the first steps in determining eligibility is to determine the size of the household.

Some households may include persons who are not counted as family members for the purpose of income limits and whose income, if any, is not considered when calculating gross income. Do not count the following household members when determining family size for income limits purposes: foster children, unborn children and children being pursued for legal custody or adoption who are not currently living in the household. Children who live in the house under shared-custody agreements, must reside in the house at least 50% of the year to be counted.

7. Comparing Gross Income to HCD Income Limits

The Recipient should complete the BEGIN Program Gross Income Worksheet to determine the borrower's BEGIN Program eligibility. Once household size and gross income information has been established and verified, the Recipient must compare the information to the appropriate BEGIN Program Income Limits to determine if the household is eligible to participate in the BEGIN Program. The BEGIN Program uses the State Income Limits provided annually by HCD.

To determine eligibility, the Recipient must first ensure that they have a copy of the most recent State Income Limits, adjusted for household size and by county. The State Income Limits are updated annually and are available on the HCD website at www.hcd.ca.gov/hpd/.

To compare the household's gross income information to the State Income Limits (see Appendix D), follow these steps:

- A. Find the county in which the house is located on the State Income Limit chart.
- B. Find the column that corresponds to the number of persons in the household (i.e., family size).
- C. Compare the verified income of the household with the income limit for the household size. The gross income must be low-income (which is 80% or below county median income) or moderate-income (which is 120% or below county median income).

8. Calculating Gross Income

Gross Income means all anticipated eligible income of a person or household for the 12 – month period following the date of determination of income. The following terms are key factors to understanding the requirements for calculating gross income.

- A. **Gross amount.** The amount earned before any deductions have been taken.
- B. **Projected to be received.** Projected earnings rather than past earnings are to be used when estimating annual income for income-eligibility purposes.

9. Treatment of Assets

In the BEGIN Program, when a household has net household assets in excess of \$5,000, gross income shall include the greater of:

A. Actual amount of income, if any, derived from all the net household assets

Or

B. 2.5% (Passbook rate) of the value of all such assets.

Net household assets means: Savings accounts, stocks, bonds and other forms of capital investments. The value of necessary items such as furniture and automobiles are excluded. For assistance in deriving the value of the assets a worksheet has been provided (sample on the next page).

Borrower's assets shall only be considered in the transaction for the determination of income eligibility calculation. If assets are less than \$5,000, they are not counted in the income eligibility calculation. If assets are \$5,000 or above, the income derived from the assets are counted in the income eligibility calculation. Borrowers will not be required to liquidate their assets to qualify for a BEGIN Program loan.

10. **Gross Income Calculation Example**

On the following page is an example using the BEGIN Program Gross Income Worksheet.

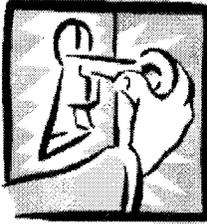
Mr. and Mrs. Scarborough have two children that permanently reside with them. It has been determined by the Recipient that the Scarborough's have a gross household income of \$31,217.50.

Based on the State Income Limits, the Scarborough family must have an annual income of less than \$32,400 (which is 80% of the median income for their county, for a family of four) in order to participate in the BEGIN Program. Since the Scarborough's income of \$31,217.50 is lower than \$32,400, they are income eligible for low-income housing financing. The BEGIN Program also permits moderate-income housing financing which is 120% of the county median income.



BEGIN Gross Income Worksheet

<u>ASSETS</u>				
Household Member	Assets Description	Current Cash Value	Actual Income from Assets	
Mary Scarborough	Cash	\$3,500		
Robert Scarborough	Savings Bonds	\$2,200		
1. Net Cash Value of Assets		1. \$5,700		
2. Total Actual Income from Assets			2.	
3. If line 1 is greater than \$5,000, multiply line by 2.5% and enter results here; if less than \$5,000 enter -0-			3. \$142.50	
<u>ANTICIPATED ANNUAL INCOME</u>				
Household Member	A. Wages/ Salaries	B. Benefits/ Pensions	C. Other Income	D. Asset Income
Robert Scarborough	\$20,667			Enter the greater of lines 2 or 3 from above in d.
Mary Scarborough	\$10,333			
4. Totals	a. \$31,000	b.	c.	d. \$ 142.50
5. Enter total of items from 4a. Through 4d.				5. \$31,142.50



V. FIRST-TIME HOMEBUYER MORTGAGE ASSISTANCE LOAN UNDERWRITING

1. Loan Underwriting

The goal of financing is to allow homebuyers to purchase homes that best match their life-style and their financial abilities. The Recipient should not commit funds to homebuyers that might put them into homes they cannot afford, because doing so could result in foreclosure. The Recipient wants to be a successful lender, with a successful program, which will make the homebuyer successful.

2. Loan Application

Usually the first thing the homebuyer will do either with the first mortgage lender or the Recipient is complete a loan application. The Uniform Residential Loan Application (sometimes referred to as the 1003) is the industry standard. The application requires sufficient information concerning a borrower's financial position to enable the Recipient to make an informed judgment about the borrower's ability to repay the mortgage debt. It is usually the first piece of information obtained and early qualifying is determined by the information is provided. The application should be compared to the credit report and the various verifications, as they are received, to back-up what the borrower has stated on the application. If there are discrepancies between the documents, the Recipient must determine what is factual by having the borrower explain the discrepancies.

3. First-Time Homebuyer Eligibility

The most important step is to determine if the homebuyer is eligible. In the previous chapter on Income Qualifying, it is explained how and what the Department requires to be used in calculating income-eligibility. Also, the borrower(s) must be a first-time homebuyer as per the BEGIN Program definition, defined in the BEGIN Program Guidelines, Section 102 (k) prior to the date on which the BEGIN Program loan will close.

4. Estimated Subsidy Calculation Sheet

The Recipient should develop a subsidy calculation worksheet to determine how much subsidy the homebuyer is eligible to receive from the BEGIN Program for "gap" financing.

5. Debt-to-income ratios

The following information is what the Department considers "**best practices**". We hope that in reading this section you will have a better idea in regards to the

debt-to-income ratios and some compensating factors that could be used if ratios are excessive.

Most primary lenders generally use front-end ratios ranging between 28-38% and back-end ratios ranging from 41-46% (these ratios are not imposed by the BEGIN Program but are set by the Recipient for their program). The BEGIN Program realizes that each loan is a separate and unique transaction and that there may be other factors besides just the ratios that demonstrate the borrower's ability and willingness to make timely mortgage payments. 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. As evidenced by the following list of compensating factors, the underwriter will allow the ratios to exceed the normal range where significant compensating factors exist. The underwriter judges the overall merits of the loan application and will determine what compensating factors apply and the extent to which ratios may be exceeded.

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

- A. The prospective homebuyer has successfully demonstrated over a minimum 12-month period the 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.
- B. The prospective homebuyer is a limited user of credit and they show a history of being able to save money.
- C. The prospective borrower has substantial non-taxable income. Special consideration may be given 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 will continue in the future, and can be "grossed up". Non-taxable 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 x 15% to equal "the amount of tax savings". Then that amount is added to the income for the new total income amount. This calculation is for loan underwriting purposes only and has no effect on the household's Program income-eligibility.
- D. 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.

- E. There will be no more than a 5% increase in the prospective homebuyer's housing expense.

The above ratios are referred to as the "front-end" and the "back-end" qualifying ratios. The front-end ratio is comprised of the homebuyer's total monthly mortgage payment (PITI – principal, interest, taxes and insurances) divided by the total monthly gross income (taken from the BEGIN Program Gross Income Worksheet). This figure represents the percentage of the homebuyer's gross monthly income that will be used for mortgage payments. The back-end ratio is calculated by adding the total monthly mortgage payment to the homebuyer's other on-going debt obligations such as revolving credit, installment accounts (that have more than 10 months worth of payments left to pay), child support and alimony. This figure is divided by the total monthly gross income.

6. Credit History

The credit report is the borrower's credit history. A homebuyer who has made payments on previous or current obligations in a timely manner represents a reduced risk to a lender and is more likely to be a successful homeowner. The credit report indicates the borrower's creditworthiness with previous mortgages (if any), shows undisclosed debts, revolving accounts, installment accounts and any judgments, garnishments, liens and/or bankruptcies that are public records. The credit report will show information on the current status of accounts. The status is usually coded such as "R-1", which stands for revolving accounts; "I-1", which stands for installment accounts. By reviewing the report, the Recipient may also discover information that the borrower "forgot" to include on the application. There may also be items on the report that do not belong to the borrower and the Recipient or Primary lender will have to work with the borrower and the credit reporting agency to have the items removed. The purpose of reviewing an applicant's credit report is to project the likelihood of repayment of their first lien, in a timely manner. Liens, judgments, collection accounts and slow pays on the credit report could indicate serious problems that should be explained by the borrower. When analyzing the borrower's credit record, it is the overall pattern of credit behavior that must be reviewed rather than isolated occurrences of unsatisfactory or slow payments.

It is also recognized that some prospective borrowers may not have an established a credit history. For these borrowers, a credit history may be developed with the use of utility payment records (at least three months worth of the most recent statements showing no late or missing payments), rental payments (rental rating from the landlord or rental agency, canceled checks or rent receipts covering the most recent 12 month period), automobile insurance payments (showing current and no late or missing payments) or other personal loans (canceled checks and a letter stating that the payments have been made on time).

7. Determining Housing Expenses

- A. **Mortgage Insurance:** Depending on what type of first lien and the loan-to-value of the first lien, there may be mortgage insurance and this monthly obligation must be included in the total housing expense.
- B. **Property Insurance:** The monthly obligation for property insurance is required on the property in the form of fire and hazard (depending on location, flood and/or earthquake insurance may also be required) and must be included in the total housing expense.
- C. **Property Taxes and Assessments:** The monthly obligation for any property taxes and assessments must be considered. Preliminary Title Reports should be reviewed for indications of improvement districts, bonded indebtedness or special assessment districts.
- D. **Homeowners Association Dues:** If the home is a condominium or located in a planned unit development, the monthly assessment for the Homeowners' Association dues should be included in the total housing expense.

8. Review of Primary Lender's Loan Terms and Conditions

The Recipient will first want to review the term, interest rate and conditions of the primary lender's loan to make sure that the BEGIN Program requirements will be met.

- A. The term of the first mortgage shall be for 30 years, except when a U. S. Department of Agriculture, Rural Housing Services, 502 loan is in the first lien position. (The minimum term of the first mortgage homebuyer purchasing a manufactured home to be installed on a rented or leased space shall be 20 years.)
- B. The interest rate shall be consistent with affordable housing costs as defined in the Recipient's Program guidelines.
- C. Mortgage loans shall not include provisions for negative amortizations or principal increases of deferred interest.

9. BEGIN Program Loan Amount and Term Requirements

- A. The maximum amount of the BEGIN Program loan shall not exceed 20% of the purchase price of the BEGIN assisted unit. The amount of the BEGIN Program loan will be determined by the Recipient on a case-by-case basis using the method as described in the Recipient's BEGIN Program Guidelines.
- B. BEGIN Program loans shall be secured by the property or leasehold interest as applicable.

- C. The lien securing repayment of the BEGIN Program loan shall be subject only to liens, encumbrances and other matters of record that have been reviewed and approved by the Recipient responsible for underwriting the BEGIN Program loan.
- D. The combined indebtedness (all loans) secured by the BEGIN Program assisted unit shall not exceed 100% of the sales price plus a maximum of up to five percent (5%) of the sales price to cover actual closing costs.
- E. Principal and interest payments shall be deferred for the term of the BEGIN Program loan.
- F. BEGIN Program loans shall be repayable when the property ceases to be owner-occupied in the first five years after the date of recordation of the Deed of Trust securing the BEGIN Program loan.
- G. The BEGIN Program loans are assumable after the first five years if the home is re-sold to an income qualifying household.
- H. BEGIN Program loans shall be repayable upon sale or transfer of the property, when the property ceases to be owner-occupied (if during the first five years) or upon the BEGIN Program loan maturity date. However, if it is determined by the Recipient that repayment of the BEGIN Program loan at the maturity date causes a hardship to the homeowner; the Recipient has two other options. They are:
 - 1. Amending 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
 - 2. 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.
 - 3. BEGIN Program loans shall be recorded in the first lien position following all "performing" loans.
- I. The following transfers of interest shall not require the repayment of the loan:
 - 1. transfer to a surviving joint tenant by devise, descent, or operation of law on the death of a joint tenant;
 - 2. a transfer in which the transferee is a person who occupies or will occupy the property, which is:

- a. a transfer where the spouse becomes an owner of the property;
 - b. 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; or
 - c. a transfer into an inter-vivo trust in which the homebuyer is and will remain the beneficiary and occupant of the property.
- J. A borrower may pay a portion of or the entire deferred payment loan amount at any time without penalty.
 - K. Recipients may make BEGIN Program loans bearing simple interest up to three percent (1-3%) per annum. Loan principal shall not be forgiven, except as allowed by statute.
 - L. In any loan transaction where the BEGIN Program loan is the only subsidy, the borrower cannot be restricted from selling the home at its fair market value at any time.

10. Subordinate Financing to BEGIN Program Loan Requirements

- A. Homebuyer mortgage assistance loans must have a loan-to-value ratio not exceeding 100% of the sales price plus a maximum of up to five percent (5%) of the sales price to cover actual non-recurring closing costs.
- B. No financing, junior or senior to the BEGIN Program loan may have a balloon payment due before the maturity date of the BEGIN Program loan.
- C. All subordinating financing shall defer all principal and interest payments for the term of the BEGIN Program loan.

11. Other BEGIN Program Requirements

- A. Maximum home values at time of purchase shall not exceed the sales price/value limit as established in the Recipient's Program Guidelines.
- B. BEGIN Program funds shall be used only for mortgage assistance for permanent financing of a new homeownership dwelling unit ready for occupancy or a unit constructed using the self-help method. In the case of self-help housing mortgage assistance, the BEGIN Program permanent financing may be disbursed at time of lot purchase where the self-help housing is being financed under the U.S. Department of Agriculture, Rural Housing Services, 502 Program.
- C. Prior to the close of escrow an appraisal shall be prepared by an independent, State-licensed appraiser, who has the knowledge and

experience necessary to appraise residential property. Local Programs with experience operating housing programs often have staff experienced to do appraisal work. If this is the case this staff person would be allowed to perform the appraisal work. The appraisal must use the sales of comparable properties approach to determine value. The comparable properties approach is the approach an appraiser must commonly use to determine the market value of single-family residential properties. This approach is based on the assumption that a homebuyer will not pay more for a property than it would cost to buy a comparable property in the same neighborhood or similar neighborhoods. The property that is being underwritten is compared to similar properties sold within the last six months in the surrounding neighborhood and a value is determined. The appraised value cannot exceed the Sales Price/Value Limits as set forth in the Recipient's Program Guidelines.

- D. Cash transactions and oral agreements outside of escrow are prohibited.
- E. Cash out of escrow to the borrower is limited to the amount deposited into escrow by the borrower and not needed for any lender-required minimum down payment. Excess cash, over that described above shall be paid to the reuse account or credited as a principal reduction to the homebuyer's loan.
- F. BEGIN Program funds can be used to pay non-recurring loan closing costs.
- G. BEGIN Program funds cannot be used to payoff all or any portion of a borrower's consumer debt, liens or judgments.
- H. Effective November 6, 2002 funds available to eligible manufactured housing buyers can be given in the form of a conditional grant with certain conditions:
 - 1. Funds are given in the form of a conditional grant with the following conditions:
 - a. Within the first 10 years after the conditional grant is made, upon sale or transfer or when the property is no longer owner-occupied, the entire principal and interest amount is due and payable to the Recipient.
 - b. At the end of the sixteen year, upon sale or transfer, or when the property is no longer owner-occupied, 20% of the principal and accrued interest is forgiven.
 - c. At the end of year seventeen, and for each year after, upon sale transfer, or when property is no longer owner-occupied, an additional 20% of the principal and interest is forgiven.
 - d. At the end of twenty years, no principal or interest is due.

- e. At the Recipient's option, the forgiveness timetable can be accelerated. A memorandum describing the reasons for the acceleration must be in the file.

VI. First-Time Homebuyer Mortgage Assistance

Loan Closing Procedures



1. Introduction

The Recipient shall be the beneficiary on the BEGIN Program loan and be responsible for drawing up the BEGIN Program deferred payment loan documents, sending the documents and the escrow instructions to escrow and closing the loan. The Department has provided the following “best practices” with regards to closing the BEGIN Program loans.

2. Review of Primary Lender Documents, Escrow Instructions and the Preliminary Title Report

Before the Recipient draws the BEGIN Program closing documents and escrow instructions, the Recipient should contact the Primary lender and request a copy of their escrow instructions and a copy of the preliminary title report. The Recipient may have to request a preliminary title report from the escrow company. These items should be reviewed as follows:

- A. Confirm that the borrower has obtained the maximum primary loan with a term and interest rate from a Primary lender that are consistent with affordable housing costs as defined in your Program Guidelines.
- B. Confirm that fees and charges for financing are consistent with usual and customary market fees and charges for such financing in your area.
- C. The Preliminary Title Report should be reviewed for correct property address and legal description. It should be reviewed for unallowable exceptions, exceptions requiring an endorsement and proposed vesting of the borrower.
- D. If possible, review the Primary lender’s escrow instructions for their requirements with regard to what exceptions may show on the CLTA and ALTA policies or any endorsements they are requesting. For example, endorsements regarding CC&R’s and unlocated easements. The Recipient’s requirements regarding unallowable exceptions and endorsements should match the Primary lender’s requirements in this regard.
- E. Property Taxes and Insurance amounts should be reviewed for accuracy. The Primary lender shall be required to collect and manage impound accounts for payment of taxes, assessments and hazard insurance for the term of the Primary loan.

- F. The homebuyers should be vested the same on the Recipient's loan documents as on the Primary lender's.

3. Drawing the BEGIN Program Documents, Escrow Instructions* and Loan Funding

The Recipient has reviewed the Primary lender's escrow instructions and the preliminary title report. The Recipient is now ready to draw the BEGIN Program loan closing documents and the escrow instructions. Documents that the Recipient must prepare and send to title are the following:

- A. Promissory Note evidencing the loan, payable to the Recipient in the principal amount of the loan and stating the terms and rate of interest of the loan consistent with the requirements of the BEGIN Program. The Recipient is prohibited from assigning its beneficial interest under the note. The note must be secured by a Deed of Trust.
- B. The Deed of Trust shall name the Recipient as the beneficiary and shall be recorded in the required lien position.
- C. Escrow Instructions with clear instructions to the escrow company. In the Recipient's escrow instructions, the Recipient should request an original ALTA Policy with the Recipient listed as a lien holder and a copy of all hazard insurance(s) showing the Recipient as additional loss payee.
- D. Request for Copy of Notice of Default or Sale to be recorded on behalf of the Recipient.

Samples of some of the documents listed above are located in Chapter XIII. Sample Documents.

All the above closing documents are sent to escrow to be reviewed by the escrow officer and for the borrower's signature. Once the borrower has signed, all the above-listed original documents, along with certified copies, except for the original Deed of Trust and Notice of Default (these two items will be sent to the County Recorder's office for recording) are returned to the Recipient to be reviewed for completeness, accuracy and conformance to the escrow instructions. After the closing documents have been reviewed for compliance, and funds have been disbursed from the Recipient to escrow, escrow will be in a position to record the BEGIN Program lien.

4. After the BEGIN Program Loan Closing

The Recipient should receive a certified Settlement Statement, the ALTA Policy and proof of insurance from the escrow company shortly after the loan documents record. Review these documents to make sure they are correct. Check the Settlement Statement (this form is often referred to as the HUD 1) for unallowable fees the homebuyer might have been charged and make sure the

borrower did not receive any unallowable cash back. If the borrower received unallowable cash back, it must be collected from the borrower and credited as a principal reduction to the BEGIN Program loan. Review the ALTA Policy to make sure the BEGIN Program loan shows in the required lien position and that all required endorsements have been provided.

*If you currently do not use an escrow company to handle your loan closings, the BEGIN Program does not require you to start using an escrow company.



VII. DISBURSEMENT PROCEDURES

1. Disbursement of Grant Funds

- A. Payments to the Recipient shall be on an advance or reimbursement basis. Upon the effective date of the Standard Agreement and upon submission of the required draw request form(s) and submission of any State required documentation; funds can be disbursed to Recipients.

Recipients may obtain an advance of funds prior to the close of escrow on the sale of the BEGIN Program units. Ninety days prior to the estimated date of the close of escrow on any or all of a Recipient's BEGIN Program units, the Recipient can request an advance of the funds required to fully fund the BEGIN Program loans on these units. After these loans are funded, the Recipient shall forward all required documentation to BEGIN Program staff. This procedure of advances shall continue until the total amount provided under the Standard Agreement is expended.

1. Requests for reimbursement or advance of funds under the BEGIN Program Standard Agreement shall be made on a Draw Request Form (MA-1) provided by the Department and must have a Borrower Summary Form (MA-2) along with all documents which are listed on the Borrower Summary Form attached.
2. Once the request for reimbursement or advance funding from the Recipient has been reviewed and approved by the Department, funds shall be disbursed to an account approved by the Department. (Please note – all funds are disbursed through the State Controller's Office [SCO] and are subject to availability or lack thereof.)

2. Required Documentation

Documentation must be submitted to the Department when requesting disbursement of funds. The Department reserves the right to request copies of other documentation prior to and/or after processing any draw request.

3. Mortgage Assistance Documentation

- A. Thirty (30) days prior to the first draw, the Recipient must submit the following documents to the Department for approval:
1. written Program Guidelines for the Recipient's mortgage assistance program;

2. a Loan Servicing Plan provided by either the Recipient or a third party;
 3. written procedures for the Recipient's Reuse Account plan;
 4. copies of the Recipient's BEGIN Program Note and Deed of Trust. (The BEGIN Program has samples of an interest bearing Note and Deed of Trust which are included in this manual – Chapter XIII. Sample Documents).
- B. A 20-year BEGIN Program Monitoring Agreement (will be drawn up by the Department once we are in receipt of and have approved the Recipient's Program Guidelines, Loan Servicing and Reuse Account Plans), to be executed by the Department and the Recipient.

With each draw request, submit the following documents:

- C. For a reimbursement funding request:
1. Completed Mortgage Assistance Draw Request (MA-1);
 2. Completed Mortgage Assistance Borrower Summaries (MA-2), one for each individual BEGIN Program loan, with the following items attached to each summary:
 - a. Copy of the executed BEGIN Program Note.
- D. For the first advance funding request:
1. Completed Mortgage Assistance Advance Draw Request (MA-1);
 2. Completed Mortgage Assistance Borrower Summaries (MA-2) for each of the BEGIN Program units for which funds are requested, one for each individual BEGIN Program loan will be required once the homebuyer(s) has been approved for BEGIN Program funds and actually purchased one of the homes;
 3. After the home purchase transactions are complete, the Recipient must provide the Department with a copy of the executed notes for each BEGIN Program loan.
- E. For all subsequent advance funding requests:
1. Copies of notes for all previously funded BEGIN Program loans (those previously not sent to the Department);
 2. Completed Mortgage Assistance Advance Draw Request (MA-1);

3. Completed Mortgage Assistance Borrower Summaries (MA-2) for each of the BEGIN Program units for which funds are requested, one for each individual BEGIN Program loan;
4. After the BEGIN Program transactions are complete, the Recipient must provide the Department with a copy of the executed notes for each BEGIN Program loan.

4. Other Draw Request Procedures

- A. Recipients must use the Department's Draw Request (MA-1) form. Copies of forms are included in Chapter XII. Forms. You may request that a BEGIN Program staff person e-mail the forms to your agency for easier usage.
- B. The person signing the forms must be specifically authorized to sign those types of documents on behalf of the Recipient. Proof of such authorization must be submitted to the Department prior to or concurrently with the Recipient's initial Draw Request.
- C. State warrants will be made payable to the Recipient when requesting reimbursement.

5. Important Notes

- A. More than one designated payee authorization may be on file with the Department at the same time for the same Standard Agreement, so be sure to specify to which designated payee each warrant should be made payable.
- B. When the above forms and documents have been received, reviewed and approved by the BEGIN Program staff, Draw Requests will be forwarded to the Department's Accounting Office, which will begin the process of requesting the issuance of a State warrant from SCO.

Now THAT was easy!!





VIII. Loan Servicing

1. Introduction:

Recipients shall develop a Loan Servicing Plan to be included in their Program Guidelines, which shows that either the Recipient or a third party under contract with the Recipient, has the ability to perform loan servicing duties. Prior to the first draw, the Department must review and approve the Recipient's Loan Servicing Plan. The Loan Servicing Plan must contain the following Begin Program Requirements:

- A. Must be noted whether loan servicing will be completed by the Recipient or if the Recipient will contract with a third party to provide loan servicing. If a third party is used, the organization's name must be provided.
- B. Must be noted that the dwelling unit must remain owner-occupied for the first five years.
- C. The plan must address the annual renewal of hazard and flood insurance.
- D. If a loan is not impounded, does the plan address the timely payment of future property taxes?
- E. The plan must demonstrate the ability to account for the repayment of BEGIN Program loans by the individual homeowners.
- F. The plan should address how to properly calculate payoffs.
- G. The plan needs to show how demands will be processed and how deeds of trust will be reconveyed.
- H. Include the process for the collection of the BEGIN Program note if a default and/or a foreclosure should occur.

Located in Chapter XII. Forms is a Loan Servicing Plan Check Sheet that is to be used when submitting your plan to the Department for review and approval.

IX. Reuse Account



1. Introduction

All repayments of loan principal and any loan interest accrued shall be deposited to a separately maintained BEGIN Program Reuse Account governed by a Reuse Account Plan reviewed and approved by the Department. The Reuse Account Plan must be approved prior to the Recipient submitting their first draw request. Listed below are the items that are required to be addressed in a BEGIN Program Reuse Account Plan.

2. BEGIN Program Requirements

- A. An account established for BEGIN Program funds which is separate from any other funding sources and provides:
 - 1. A tracking system to ensure reuse of funds are used for appropriate activities as described below;
 - 2. Appropriate reporting ability;
 - 3. Provides for timely processing; and
 - 4. Any accrued interest earned on BEGIN Program funds is to accrue to the BEGIN Reuse Account.

- B. Funds in the reuse account shall only be used by the Recipient for:
 - 1. To assist low- or moderate-income persons and families with:
 - a. Loans to individual homebuyers as downpayment assistance as allowed by BEGIN Program requirements;
 - b. Loans for home rehabilitation;
 - c. Loans for acquisition and rehabilitation for first-time homebuyers;
 - d. Loans for self-help mortgage assistance.
 - 2. To pay the cost of homebuyer counseling for BEGIN Program loan recipients.
 - 3. A BEGIN Program loan processing activity delivery fee, as applicable, in accordance with BEGIN Program requirements; and

4. Up to five percent (5%) of funds deposited may be used towards the costs of loan servicing by the Recipient or the cost of a third-party completing the loan servicing under contract with the Recipient.
- C. The Department will monitor the reuse account according to the most current BEGIN Program requirements.

X. PERFORMANCE REPORTING



1. Reporting Requirements

- A. During the term of the BEGIN Program Standard Agreement, and no later than 30 days after June 30th of each year and within 30 days of the expiration date of the Standard Agreement; the Recipient shall submit, an Annual Status Report on the BEGIN Program form (AR) provided by the Department. In addition, Recipient's are required to submit Quarterly Reports on the BEGIN Program form (QR) provided by the Department, within 30 days after each of the following dates: March 31st, June 30th, September 30th and December 31st.

2. Annual Reporting

- A. The annual reporting period will be:

July 1st to June 30th.

- B. The Annual Status Report will be due no later than 30 days after June 30th. The reporting period will begin immediately following the execution of the Standard Agreement and be due each June 30th during the term of the Standard Agreement. Also, an Annual Status Report will be due within 30 days of the expiration date of the Recipient's BEGIN Program Standard Agreement.

1. An Annual Status Report, describing all activity in the Recipient's Reuse Account, will be due from the Recipient each year during the 20-year period included in the executed Monitoring Agreement.
2. The Annual Status Report is to be made using the BEGIN Annual Status Report (AR) form. This form must be returned to the Department by July 31st of each year or within 30 days of the expiration date of the Standard Agreement. The following information is required for the reporting period:
 - a. From the Recipient's BEGIN Program Standard Agreement:
 - (1) the number of units assisted; and
 - (2) amount of funds spent;
3. A Financial Summary of the Recipient's BEGIN Program Standard Agreement amount asking for the original Standard Agreement amount, total funds drawn, percentage of funds drawn, the remaining balance, and;

4. **Signature, Title and Date:** The person submitting the Annual Status Report must be specifically authorized to sign this type of document and should provide his/her title, then sign and date the form.

3. **Quarterly Reporting**

- A. The quarterly reporting periods will be:

March 31st
June 30th
September 30th
December 31st

- B. The Quarterly Report will be due no later than 30 days after each of the above-listed dates for all active contracts. The reporting period will begin immediately following the execution of the Standard Agreement and will be due after each quarterly period has ended.

1. Describe current status of activity (include number of units assisted.)
2. Describe activities to be undertaken (or planned for) in the next reporting period (funds committed; number of applicants or specific sites; and time frames.)
3. Describe problems/delays encountered and course of action taken.
4. Describe what actions have been taken to achieve programs expenditure deadlines.
5. Comments – This section is for you (the Recipient) to comment on anything not previously covered on the form.

- C. **Standard Agreement Financial Summary for this Reporting Period**

1. **Standard Agreement Amount** – The total amount your contract was originally funded for.
2. **Funds Drawn** – This item includes a place to put the percentage of funds drawn/spent and the total dollar amount drawn down.
3. **Remaining Balance** – How much is left to be expended by the Recipient.

- D. **Signature, Title and Date:** The person submitting the Quarterly Report must be specifically authorized to sign this type of document and should provide his/her title, then sign and date the form.

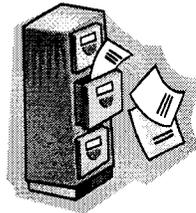
XI. MONITORING

1. Introduction

Monitoring is an activity performed by the BEGIN Program staff to ensure that the BEGIN Program funding is being used in a manner that complies with the Program Guidelines, requirements, statutes and the terms of the Standard Agreement.

Monitoring is done in many ways, starting as soon as the Recipient receives the Standard Agreement. The Recipient will be submitting documentation for review by the BEGIN Program staff prior to and when requesting reimbursement of funds. There will be phone calls, correspondence, reports and possible office visits that keep BEGIN Program staff aware of the progress and issues regarding the Recipient's Standard Agreement.

BEGIN Program staff may visit the Recipient's office for the specific purpose of "monitoring" its activity. Primarily this will involve questions regarding the Recipient's program operation and procedures and reviewing documentation in the Recipient's files. In the case of individual loans, this will involve reviewing a sampling of individual borrower files. What will we be looking for? We will be looking for the back-up documentation that verifies compliance with the BEGIN Program. The following will give the Recipient a general idea of the minimum documentation we will expect the Recipient to maintain in their files. It is not an exhaustive list and the Recipient may use forms or documents of their own in addition to the required BEGIN Program forms or documents.



Prior to the Recipient's first request for funds, the Department and the Recipient will enter into a twenty (20) year monitoring agreement on a form to be provided by the Department. The beginning date of this monitoring agreement will be the same as the Standard Agreement and will expire 20 years after that date. The monitoring agreement is necessary because the Recipient's obligations for loan servicing and administration of its local reuse account extend beyond the term of the Standard Agreement.

2. All Activities

- A. Copies or originals as appropriate:
 - 1. Copy of the Recipient's Program Guidelines.
 - 2. Plans and procedures for providing loan servicing.
 - 3. BEGIN Program Reuse Account plans and procedures.
 - 4. BEGIN Program Quarterly and Annual Reports.
 - 5. Monitoring Agreement for loan servicing and reuse account plans.

6. Correspondence (including relevant e-mail) between the Recipient and HCD, along with notes of meetings or phone calls.

3. First-Time Homebuyer Mortgage Assistance Files

- A. For each individual loan (copies or originals as appropriate) and only if the Recipient requires the item for their program (this list is “best practice”):
 1. Application for BEGIN Program assistance.
 2. Confirmation of first-time homebuyer status and household size.
 3. Income and asset verification documentation.
 4. Credit Report or other documentation required to show a good credit history.
 5. Property sales contract, appraisal, preliminary title report.
 6. For a newly constructed unit: the final inspection report and certificate of occupancy.
 7. From the primary lender: The primary loan application; the conditional approval (MCAW or equivalent); and loan documents.
 8. BEGIN Program disbursement forms including Borrower Summary Sheets.
 9. BEGIN Program loan escrow instructions.
 10. From the escrow/title company: executed Promissory Note; recorded Deed of Trust; Title Insurance Policy for the BEGIN Program loan naming the Recipient as the insured; Hazard Insurance, including flood insurance when applicable, naming the Recipient as Additional Loss Payee; recorded Notice(s) of Default or Sale; certified copy of the Settlement Statement.
 11. Correspondence (including relevant e-mails) or notes of meetings or phone calls between the Recipient and the homebuyer, other lenders, title or escrow companies or other parties contacted in relation to the homebuyer’s loan.

4. Loan Servicing

- A. Documentation of continued owner-occupancy during the first 5 years.



- B. Documentation of annual renewals of hazard insurance and, when applicable, flood insurance.
- C. If the primary lender does not collect for an impound account, documentation that property taxes and assessments are current and paid.
- D. Documentation of repayment of BEGIN Program loans by individual homeowners including: requests for demand, demand letters, reconveyances of deeds of trust.
- E. In the event of default and/or foreclosure, documentation of actions taken and attempts to recover all or a portion of the BEGIN Program loan and/or loan amounts not recovered.

5. Reuse Account Plan

Copies or originals as appropriate:

- A. BEGIN Program Annual Reports.
- B. Accounting records indicating that a separate accounting is being maintained of deposit and disbursement of repaid BEGIN Program funds.
- C. Documentation that the amount of disbursements for loan processing or activity fees, homebuyer education or program administration do not exceed the amounts allowed per BEGIN Program Guidelines in effect at time of such disbursements.
- D. For new loans to individual homebuyers, the individual file documentation should be the same as what are listed above under First-Time Homebuyer Mortgage Assistance Files, except there will be no draw requests forms submitted to HCD. The above-required documentation is subject to revision and files should be documented in accordance with BEGIN Program requirements in effect at time of funding of the loans.

6. Close-Out

Close-out occurs when the Standard Agreement expires, normally after 36 months.

After the Standard Agreement has expired, any funds which were not drawn will be disencumbered. The assigned HCD BEGIN representative will analyze the draw-down documents that were submitted, to ensure the claimed costs were permissible and properly documented. The HCD representative will provide the State's reconciliation figures to the Recipient.

Any funds drawn but not used for eligible activities must be returned to the State along with any earned interest on that amount. This should only be done after

the Recipient and the State have reconciled on the correct figures. Instructions for the return of funds are found below.

After the Reconciliation

If the financial documentation sent by the Recipient matches with the BEGIN records, and all funds have been returned or disencumbered, a close-out letter will be issued. This letter will be sent to the Recipient's Authorized Signatory, with electronic copies to the Recipient's contact person. Attached to the letter will be the latest version of the Reuse Account Annual Report form.

Recipient Responsibilities

After the Grant has been closed out, Recipients should submit the last Quarterly Report which covers the period through the end of the contract. No further Quarterly Reports will be required.

At the end of each fiscal year thereafter, the Reuse Account Annual Report form should be utilized, not the Annual Report form. Please note that the Reuse Account Annual Report form allows reporting for multiple grants if you had more than one. If your internal records indicate which grant was the source of funds received into the account, then tracking will be facilitated through that process.

Returning Funds

Recipient must return unused funds or ineligible costs to the State as follows:

- A. The Recipient's accounting records should reconcile to the State's records;
- B. The Recipient will have an opportunity to review any BEGIN claim to returned funds, and concur or support their position. The Recipient should note the circumstances causing these funds to be returned to the State (i.e., unused funds or ineligible costs);
- C. Upon reconciliation of the principal amount to be repaid, the Recipient must determine the amount of interest earned on that amount from the date of receipt of those funds through the date of delivery to the State;
- D. The principal amount to be repaid and any attributable interest are to be remitted in the form of a check, payable to Housing and Community Development Department;
- E. Make sure the following information is on the check:
 1. The BEGIN Grant Number
 2. Identification of the amount of principal being returned
 3. Identification of the amount of interest being submitted;

F. Mail to:

Housing and Community Development Department
Accounting Office
HCD Cashier, Room 415
P.O. Box 952050
Sacramento, CA 94252-2050

G. Recipient's staff should alert their HCD BEGIN Representative and to notify her/him what the amount of the check will be.

7. Disencumbrances

"Disencumbrance" means HCD cancels for cause all or part of an award commitment of funds that has not yet been drawn down by the Recipient. The disencumbered amount is considered to be once again available for award to another Recipient or for other uses allowed by program rules.

8. Reasons for disencumbrance

- When a Standard Agreement (SA) expires after 36 months, and part of the award has not been drawn or requested by the Recipient, that part is usually disencumbered. HCD can extend the SA by up to one year on request. For example, HCD has received such requests from some 2006 grant recipients, whose disbursements may have been frozen by the Pooled Money Investment Board (PMIB) for recession reasons during late 2007 and 2008.
- If a Recipient ceases operation (e.g., for bankruptcy) during the term of a Standard Agreement, any remaining funds in the award are disencumbered.
- If evidence is obtained that a Recipient is in substantial violation or noncompliance with the terms of a Standard Agreement, remaining funds may be disencumbered. Reasons include those listed in the CalHome Regulations at California Code of Regulations, Title 25, Section 7756(a) and (b).

Despite the title of regulations section 7756, referenced above, HCD does not do defaults or loan cancellations for Mortgage Assistance awards, because HCD does not make MA loans – the Recipient does, therefore, this is the responsibility of the Recipient.

9. Disencumbrance procedure

In the most typical case, when a Standard Agreement expires and has unused funds, HCD's intention to disencumber will be noted in the close-out letter sent to the Recipient. Program Staff will generate a Form 813 from HCD's database, which will be signed by the Representative and the Manager, and sent to

Budgets and then to Accounting. These offices ship the amount from the Recipient account back to the program fund account for reuse.

10. Conclusion

As stated at the beginning of this chapter, this should not be considered all inclusive and/or a complete list. Any documentation the Recipient thinks will evidence the use of BEGIN Program loan funds for the purposes for which funds were awarded and confirms the eligibility of individual households should be kept in the Recipient's files for the term of the Standard Agreement.

BEGIN Program staff expects monitoring visits to be a team effort. As well as conducting the necessary review for Program compliance, BEGIN Program staff sees monitoring as an opportunity to learn more about the Recipient's projects, programs, operations, housing market and housing needs. It is also our opportunity to find out what seems to be working well for our Recipients and what possibly needs improvement or modification. It also lets us discover where our technical assistance has helped Recipients to comply and where we need to provide more training or clearer instructions. We can learn a great deal from our clients that can lead to a better Program for all concerned.

Congratulations on your BEGIN Program award. Hopefully, this manual will help you be successful in administering your award. GOOD LUCK!

BEGIN PROGRAM 2011

Operations Handbook Forms

- Gross Income Worksheet (IQ-1)
- Advance Funding Request (MA-1)
- Mortgage Assistance Draw Request (MA-1)
- Mortgage Assistance Borrower Summary (MA-2)
- Quarterly Status Report (QR)
- Reuse Account Annual Status Report
- Annual Status Report (AR)
- BEGIN Program Guideline Check Sheet
- BEGIN Loan Servicing Plan Check Sheet
- BEGIN Reuse Account Plan Check Sheet
- Close-out Letter



BEGIN Program Gross Income Worksheet

ASSETS				
Household Member	Assets Description	Current Cash Value	Actual Income from Assets	
1. Net Cash Value of Assets		1.		
2. Total Actual Income from Assets			2.	
3. If line 1 is greater than \$5,000, multiply line by 2.5% and enter results here; if less than \$5,000 enter 0			3.	
ANTICIPATED ANNUAL INCOME				
Household Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Other Income	d. Asset Income
				Enter the greater of lines 2 or 3 from above in d.
4. Totals	a.	b.	c.	d.
5. Enter total of items from 4a. through 4d.				5.



BEGIN Program Advance Funding Draw Request

Contract No.: _____

Date: _____

Recipient: _____

Phone: _____

Aggregate number of loans to be funded with this Draw Request: _____

BEGIN Program Standard Agreement Grant Amount (1)	Aggregate Amount of Funds Drawn to Date (2)	Amount Requested this Draw (3)	Total Funds Requested and Drawn (#2 + #3) (4)	Balance of Grant Remaining (#1 - #4) (5)

This request amount: \$ _____ Please make check payable to: _____

Address: _____

ATTN: _____

I, the undersigned, do hereby certify that the above listed costs will be incurred in performance of the above contract number in compliance with all BEGIN Program requirements and that all recipients of BEGIN Program loans have been verified to be eligible households. Documentation of completed transactions must be provided on the above requested advance funds before anymore funds may be advanced.

By: _____
Authorized Signor per Resolution

Title: _____

Print Name: _____

FOR HCD'S USE ONLY	Reviewed by: _____
Approved for payment: _____	Program Manager Date: _____



BEGIN Program Mortgage Assistance Draw Request

Contract No.: _____

Date: _____

Recipient: _____

Phone: _____

Aggregate number of loans funded with this Draw Request: _____

BEGIN Program Standard Agreement Grant Amount (1)	Aggregate Amount of Funds Drawn to Date (2)	Amount Requested this Draw (3)	Total Funds Requested and Drawn (#2 + #3) (4)	Balance of Grant Remaining (#1 - #4) (5)

This request amount: \$ _____ Please make check payable to: _____

Address: _____

ATTN: _____

I, the undersigned, do hereby certify that the above listed costs were incurred in performance of the above contract number in compliance with all BEGIN Program requirements and that all recipients of BEGIN Program loans have been verified to be First-Time Homebuyers.

By: _____
Authorized Signor per Resolution

Title: _____

Print Name: _____

FOR HCD'S USE ONLY Approved for payment: _____	Reviewed by: _____ Program Manager Date: _____
---	---



BEGIN Program Mortgage Assistance Borrower Summary

BEGIN Program Contract No.: _____ Date: _____

Recipient: _____ Phone: _____

Buyer's Name: _____

Senior Citizen: Yes No Veteran: Yes No

Property Type (Condo, Town home, Duplex, SFR): _____

Property Address: _____ Census Tract No.: _____

Contributed Labor hours, if applicable: _____ Income Limit Percentage of Household: _____
(80% etc)

Number in Household: _____ Household Income: _____ Income Limit: _____

First Mortgage Lender: _____ Interest Rate of First Mortgage: _____

Appraised Value: \$ _____

Source of Funds:

Sales Price: \$ _____

First Mortgage Amt \$ _____

Add: Buyer's Closing Costs: \$ _____

BEGIN Program Loan \$ _____

Total Req. to Close: \$ _____

*Other Subsidy Loans \$ _____

Buyer's Contribution \$ _____

Total \$ _____

Copies of Documentation Required:

1. Copy of executed Note

Funds Requested

BEGIN Program Loan Amount \$ _____

*List other subsidy loans:

Total for this Draw Request \$ _____

Lender	Amount

I certify that the above information is a true representation of the loan for which this draw request is being submitted. I have verified that the Sales Price, Appraised Value and Household Income do not exceed BEGIN Program Income Limits and that the buyers are First-Time Homebuyers in accordance with BEGIN Program Guidelines.

Authorized Signor per Resolution Title Date



BEGIN Program

Quarterly Report

This Report is due within 30 days of quarter end date for each active contract.

Recipient _____

Contract No. _____ - BEGIN - _____ (Note: Use one contract only per report.)

Year _____

Quarterly Reporting Period Ending:

March 31st June 30th September 30th December 31st

Housing Unit Summary

No. of BEGIN Units:

Proposed	_____
In Construction	_____
Completed	_____
Assisting Low-Income Buyers	_____
For Sale	_____
Sold	_____

1. Describe the current status of activity (include number of units assisted to date).

2. Describe activities to be undertaken in the next reporting period (funds committed; number of applicants or specific sites; time frame).

BEGIN Program Quarterly Report

Recipient _____

Contract #: _____ - BEGIN - _____

Year _____

March 31st

June 30th

September 30th

December 31st

Page 2

3. Describe problems/delays encountered and course of action taken.

4. What actions have been taken to achieve programs expenditure deadlines?

5. Comments: (Include estimated construction completion dates.)

Financial Summary

Standard Agreement Amount	\$ _____
Funds Drawn to date	\$ _____
Remaining Balance	\$ _____

Authorized Signor per Resolution

Print Name

Title of person signing

Date



BEGIN Program Reuse Account Annual Status Report

*This Report is due within 30 days of the end of the reporting period
and/or within 30 days of the expiration date of the Standard Agreement.*

Recipient _____

Contract No. _____ - BEGIN - _____ (Note: Use one contract only per report.)

For Reporting Period July 1st through June 30th, year 20 _____

BEGIN Program Reuse Funds

1. How many units were assisted in BEGIN activities?

	Last Reporting Year	Total
Mortgage Assistance	_____	_____
Owner-Occupied Rehabilitation	_____	_____
Home Buyer Education	_____	_____
Technical Assistance (Self-Help Projects)	_____	_____

2. In the last reporting year, what amounts of BEGIN reuse funds were spent on the following for each activity?

BEGIN Program Activity	Deferred Payment Loans	Homebuyer Education	Activity Delivery Fee
Mortgage Assistance			
Owner-Occupied Rehabilitation			

Standard Agreement Financial Summary for this Reporting Period

Total Reuse Account Amount (Program Income)	\$	_____
Less Funds used for BEGIN Program activity for 20 _____	\$	_____
Balance	\$	_____

Authorized Signor per Resolution

Print Name

Title of person signing

Date



BEGIN Program

Annual Status Report

This Report is due within 30 days of the end of the reporting period and/or within 30 days of the expiration date of the Standard Agreement.

Recipient _____

Contract No. _____ - BEGIN - _____ (Note: Use one contract only per report.)

For Reporting Period July 1st - June 30th, year 20 _____

BEGIN Contract Funds

1. In the last reporting year, how many units were assisted in activities applicable to your Contract?

Mortgage Assistance _____

2. In the last reporting year, what amounts of BEGIN funds were spent on the following activity where applicable to your Contract activity?

BEGIN Program Activity	Deferred Payment Loans	Homebuyer Education	Activity Delivery Fee
Mortgage Assistance			
Owner-Occupied Rehabilitation			

Standard Agreement Financial Summary for this Reporting Period

Standard Agreement Amount \$ _____

Funds Drawn as of June 30th % _____ \$ _____

Remaining Balance \$ _____

Authorized Signor per Resolution

Print Name

Title of person signing

Date

BEGIN Program Guidelines Check Sheet

Recipient Name: _____ Contract #: _____

Your BEGIN Program contract requires that the Recipient prepare Program Guidelines governing your mortgage assistance program. If the Recipient is using existing loan program guidelines, the following BEGIN Program requirements must be incorporated into them. Your guidelines should be a comprehensive and clearly written statement of your underwriting policies and procedures for mortgage assistance and should include the following items:

	Page	√
1. Determining the eligibility of the applicant:		
2. Income qualifying of the applicant:		
3. Determining the housing and debt ratios of the applicant:		
4. The criteria for credit worthiness:		
5. Maximum BEGIN Program loan amount (how is the "gap" financing determined)		
6. Specify the allowable loan-to-value ratio that will be used:		
7. Provide the data source used to set sales price/value limits:		
8. Guidelines shall give the criteria for the primary loan that address the BEGIN Program requirements:		
9. Guidelines shall give the criteria for any subordinate financing to the BEGIN Program loan that address CalHome requirements:		
10. Specify the type of housing units that will be assisted:		
11. Specific interest rate 1% to 3%, on the BEGIN Program loan:		
12. Attach a copy of your Program Guidelines to this check sheet and submit to the Department for approval prior to first draw request.		

Submitted by: _____ Date: _____

Approved by: _____ Date: _____

BEGIN Program Loan Servicing Plan Check Sheet

Recipient Name: _____ Contract#: _____

Recipients shall develop and employ a loan servicing plan to be included in their program guidelines which shows whether they or a third party will perform loan servicing duties. The loan servicing plan shall be pre-approved by the Department and at a minimum shall include the following:

	Page	√
1. Loan servicing is performed by __ Recipient, or __ third party?		
2. Print name of third party if applicable (If the loan servicing is provided by a third party, the following must be provided by the third party):		
3. Plan to address continued owner-occupancy for the first 5 years:		
4. Plan to address the annual renewal of hazard, and flood insurance (if required):		
5. If not impounded, does plan address the timely payment of future property taxes and assessments?		
6. Plan to demonstrate the ability to account for the repayment of BEGIN Program loans by individual homeowners:		
7. Plan to address the need to properly calculate payoffs:		
8. Plan to address the need to process demands:		
9. Plan to address the need to reconvey deeds of trust:		
10. Plan to address the process for the collection of the BEGIN Program Note if a default and/or a foreclosure should occur:		
11. Attach a copy of the Loan Servicing Plan to this check sheet and submit to the Department for approval prior to first draw request.		

Submitted by: _____ Date: _____

Approved by: _____ Date: _____

BEGIN Program Reuse Account Plan Check Sheet

Recipient Name: _____ Contract #: _____

Recipients shall develop and employ a reuse account plan. All repayments of loan principal and loan interest shall be deposited into a separately maintained BEGIN Program reuse account governed by a reuse account plan that has been reviewed and approved by the Department. At a minimum the plan shall include the following:

	Page	√
1. Plan provides for a tracking system to ensure reuse of funds are for appropriate activities as follows:		
a. Loans to individual homebuyers as allowed pursuant to BEGIN Program requirements;		
b. Cost of homebuyer education provided pursuant to the requirements of the BEGIN Program, for each first-time homebuyer receiving mortgage assistance from the reuse account;		
c. CalHome Program loan processing activity delivery fee, as applicable, in accordance with CalHome Program requirements; and		
d. Up to 5% of funds deposited may be used towards the costs of loan servicing by the Recipient or the cost of third party loan servicing contracted by the Recipient		
2. Attach a copy of the Reuse Account Plan to this check sheet and submit to the Department for approval prior to first draw request.		

Submitted by: _____ Date: _____

Approved by: _____ Date: _____

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF FINANCIAL ASSISTANCE**

1800 Third Street, Suite 390-2
P. O. Box 952054
Sacramento, CA 94252-2054
(916) 322-1560
FAX (916) 323-6016



Date

Recipient, Title
Agency
Address
City, CA Zip

Re: Contract XX-BEGIN-XXXX

Dear Recipient:

This is to confirm that all funds have been drawn and/or disencumbered on the above referenced grant. The reconciliation figures follow.

This grant is:

- closed and will now enter into the monitoring stage.
- will be closed once HCD has received the return of unused funds in the amount of \$ _____ plus attributable accrued interest, and will now enter into the monitoring stage.

Our reconciliation is as follows:

Category		Amount
a. Grant Amount		\$
b. Amount Drawn as of last day to expend per contract		\$
c. Amount Satisfactorily Documented		\$
d. Principal amount to be returned to the State PLUS attributable earned interest	b-c	\$
e. Amount Remaining with HCD at termination of contract (Disencumbered)	a-b	\$

Please continue to submit your Annual Reports. However, since you will have Reuse Account funds to track, you will need to use the enclosed report form, which reflects this.

Please note that this form may be used for multiple grants (several lines are provided at the top of the form to identify them). For your convenience, an electronic copy can be sent to you.

If I can be of any further assistance, or if you have any questions, please contact me at (916) ____-____.

Sincerely,

BEGIN (Title)

Enclosure

BEGIN PROGRAM 2011

Operations Handbook Sample Documents

Designated Payee Letter

First-time Homebuyer Escrow Instructions

BEGIN Program Deed of Trust

BEGIN Program Note

Designated Payee Letter

Letterhead

Date

(your BEGIN Program Representative's name)
State of California
Department of Housing and
Community Development
BEGIN Program
P.O. Box 952054, MS 390-2
Sacramento, CA 94252-2054

Dear (your BEGIN Program Representative):

RE: (your BEGIN Program Contract number)

This letter authorizes (name of designated payee) located at (full address of designated payee) to act as the payee for (name of BEGIN Program Contractor) encumbered under Standard Agreement No. _____, which will be used for costs associated with (name of BEGIN Program activity being undertaken.). This authorization will remain in effect until (time frame) or until rescinded by written notice.

Sincerely,

(signature of authorized BEGIN Program signatory per Resolution)
(name of authorized signatory)
(title of authorized signatory)

SAMPLE

FIRST-TIME HOMEBUYER ESCROW INSTRUCTIONS*

DATE:

TO:

FROM:

RE: Escrow No: 00000
Escrow Officer:
Buyers:
Property Address:
(Recipient's Name) BEGIN Program Loan Number:

IMPORTANT

Borrower(s) cannot receive any cash back out of escrow unless Agency gives written authorization. Prior to disbursement, escrow officer must contact the undersigned for written instructions regarding any cash back to borrower(s) from this escrow.

1. With regards to the above escrow, we are enclosing the following documents:
 - A. First-Time Homebuyer Promissory Note in the amount of \$ _____
 - B. First-Time Homebuyer Deed of Trust
 - C. Request for copy of Notice of Default or Sale
 - D. List any other documentation you are sending to escrow
2. Have the borrower execute the above referenced documents, where appropriate, and provide a copy to them. Notarize appropriate documents.
3. Record the **(Recipient's Name)** Deed of Trust in second lien position to the **(name of First Lien Holder)** Deed of Trust in the amount of \$ _____.
4. Complete and record Recipient's Request for Copy of Notice of Default or Sale pertinent to senior loan.

5. Please provide **(Recipient's Name)** a copy of a Lender's ALTA Policy in the amount of the **(Recipient's Name)** loan. The ALTA Policy shall include 100, 116, & 8 endorsements (or whichever endorsements you or the first lender are requiring), showing fee title to the Property vested in the borrower's name, subject only to taxes and assessments not delinquent and with the following exceptions only
_____, as set forth in the Preliminary Title Report issued by you on _____ (date) and with the following escrow number _____.
6. Provide the Agency with a policy of hazard insurance on the Property, in an amount sufficient to cover all indebtedness on the Property and showing the **(Recipient's name and address)**, as a second mortgagee (loss payee).
7. _____ If checked, provide the Agency with a policy of flood insurance coverage in an amount sufficient to cover all indebtedness on the Property and showing **(Recipient's name and address)**, as a second mortgagee (loss payee).
8. Upon close of escrow, please return the Agency loan documents along with a certified copy of the Settlement Statement.

Should you have any questions, please contact me at _____, or fax number _____.

Sincerely,

Name of Person Signing Escrow Instructions
Title

Enclosures

*This form is provided as a sample only and is not a BEGIN Program requirement. The Recipient should check with their legal department before using the sample to make sure the contents meet all current Federal, State and local requirements.

2. **FOR THE PURPOSE OF SECURING:**

2.1. Repayment of the indebtedness evidenced by that certain Promissory Note of the Borrower dated _____, 20_____, and entitled [*insert name of jurisdiction*] BEGIN Program First-time Homebuyer Promissory Note "Loan No. _____" (the "Note") of the Borrower in the principal amount of _____ Dollars (\$ _____), together with simple interest on such indebtedness according to the terms of the Note, and any and all amendments, modifications, extensions or renewals of the Note. The Note and this Deed of Trust are subject to the terms, conditions, and restrictions of the State of California BEGIN Program as set for the in the Health and Safety Code section 50860 et seq. and implementing guidelines adopted by the California Department of Housing and Community Development, all of which are hereby incorporated by reference.

2.2. Payment of such additional sums, with interest thereon:

- (a) As may hereafter be borrowed from Lender by the then-record owner of the Property and evidenced by a promissory note or notes reciting that it or they are so secured and all modifications, extensions, or renewals of the Note; and
- (b) As may be incurred, paid, or advanced by Lender, or as may otherwise be due to Trustee or Lender, under any provision of this Deed of Trust and any modification, extension, or renewal of this Deed of Trust; and
- (c) As may otherwise be paid or advanced by Lender to protect the security or priority of this Deed of Trust.

2.3. Performance of each obligation, covenant, and agreement of Borrower contained in this Deed of Trust, the Note, or any other document executed by Borrower in connection with the loan(s) secured by this Deed of Trust, and all amendments to these documents whether set forth in this Deed of Trust or incorporated in this Deed of Trust by reference.

3. **BORROWER COVENANTS:**

Borrower hereby covenants to maintain and protect the security of this Deed of Trust, to secure the full and timely performance by Borrower of each and every obligation, covenant, and agreement of Borrower under the Note and this Deed of Trust, and as additional consideration for the obligation(s) evidenced by the Note, Borrower covenants as follows:

3.1. **Title.** That Borrower is lawfully seized of the estate hereby conveyed and has the right to grant and convey the Property, and that Borrower will warrant and defend generally the title of the Property against all claims and demands subject to any declarations, easements, or restrictions listed in the schedule of exemptions to coverage in any title insurance policy insuring Lender's interest in the Property.

3.2. **Payment of Principal and Interest.** That Borrower shall promptly pay, when due, the principal and interest on the Note, and such other charges as are provided in the Note, and such other amounts as are provided under this Deed of Trust.

3.3. **Maintenance of the Property.** (a) To keep the Property in a decent, safe, sanitary, tenantable condition and repair and permit no waste thereof; (b) not to commit or suffer to be done or exist on or about the Property any condition causing the Property to become less valuable; (c) remove, demolish or structurally alter any buildings and improvements now or hereinafter located on the Property; (d) to repair, restore or rebuild promptly any buildings or improvements on the Property that may become damaged or be destroyed while subject to the lien of this Deed of Trust; (e) to comply with all applicable laws, ordinances and governmental regulations affecting the Property or requiring any alteration or improvement thereof, and not to suffer or permit any violations of any such law, ordinance or governmental regulation, nor of any covenant, condition or restriction affecting the Property; (f) not to initiate or acquiesce in any change in any zoning or other land use or legal classification which affects any of the Property without the Lender's written consent; and (g) not to alter the use of all or any part of the Property without the prior written consent of the Lender.

3.4. **Appear and Defend.** Borrower shall appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of the Lender or Trustee; and to pay all costs and expenses, including cost of evidence of title and attorney's fees in a reasonable sum, in any such action or proceeding in which the Lender or Trustee may appear, and in any suit brought by the Lender to foreclose this deed.

3.5. **Payment of Taxes and Utility Charges.** Borrower shall pay, at least ten (10) days before delinquency all taxes and assessments affecting the Property, including assessments on appurtenant water stock; when due, all encumbrances, charges

and liens, fines and impositions attributable to the Property, leasehold payments or ground rents, if any, and any interest on the Property or any part thereof; all costs, fees and expenses of this trust. Borrower shall make such payments when due, directly to the payee thereof. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and Borrower shall promptly furnish to Lender receipts evidencing all such payments made.

3.6. Insurance. To keep the Property insured with loss payable to the Lender, against loss or damage by fire and such other hazards, casualties and contingencies and by such companies on such forms and in the amount of the replacement cost of the Property, and to deliver the original of all such policies to the Lender, together with receipts satisfactory to the Lender evidencing payment of the premiums. All such policies provide that the Lender shall be given thirty (30) days advance written notice of the cancellation, expiration or termination of any such policy or any material change in the coverage afforded by it. Renewal policies and any replacement policies, together with premium receipts satisfactory to the Lender, shall be delivered to the Lender at least thirty (30) days prior to the expiration of existing policies. Neither Trustee nor the Lender shall by reason of accepting, rejecting, approving or obtaining insurance incur any liability for the existence, nonexistence, form or legal sufficiency of such insurance, or solvency of any insurer for payment of losses. All insurance proceeds for such losses must be utilized for the repair or restoration of the insured property.

3.7. Payments and Discharge of Liens. Borrower will pay, when due, all claims of every kind and nature which might or could become a lien on the Property or any part thereof; provided, however, that the following are excepted from this prohibition: (a) liens for taxes and assessments which are not delinquent although by law are given the status of a lien, and (b) such of the above claims as are, and only during the time they are, being contested by Borrower in good faith and by appropriate legal proceedings, and Borrower shall post security for the payment of these contested claims as may be requested by the Lender. Borrower shall not default in the payment or performance of any obligation secured by a lien, mortgage or deed of trust which is superior to this Deed of Trust.

4. IT IS MUTUALLY AGREED THAT:

4.1. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under the Note and Section 2.1 shall be applied by Lender first to interest payable on the Note and then to the principal due on the Note.

4.2. Future Advances. Upon request by Borrower, Lender, at Lender's option, may make future advances to Borrower. All such future advances, with interest thereon, shall be added to and become a part of the indebtedness secured by this Deed of Trust when evidenced by promissory note(s) reciting that such note(s) are secured by this Deed of Trust.

4.3. Disbursements to Protect Lender's Security. All sums disbursed by Lender to protect and preserve the Property, this Deed of Trust, or Lender's security for the performance of Borrower's obligations under the Note shall be and be deemed to be an indebtedness of Borrower secured by this Deed of Trust.

4.4. Protection of Lender's Security. If Borrower fails to perform the covenants and agreements contained in this Deed of Trust, or if any action or proceeding is commenced which materially affects Lender's interest in the Property, including, but not limited to, eminent domain, insolvency, code enforcement, arrangements or proceedings involving a bankrupt or decedent, foreclosure of any mortgage secured by the Property or sale of the Property under a power of sale of any instrument secured by the Property, then Lender, at Lender's option, upon notice to Borrower, may make such appearance, disburse such sums and take such action as is necessary to protect Lender's interest, including, but not limited to, disbursement of reasonable attorney's fees and entry upon the Property to make repairs.

Any amounts disbursed by Lender pursuant to this Section 4.4, with interest thereon, shall become additional indebtedness of Borrower secured by this Deed of Trust. Unless Borrower and Lender agree to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof, and shall bear interest from the date of disbursement at the highest rate permissible under applicable law. Nothing contained in this Section 4.4 shall require Lender to incur any expense or take any action hereunder.

4.5. Inspection. Lender or its agent may make or cause to be made reasonable entries upon and inspections of the Property. Lender shall give Borrower notice at the time of or prior to any such inspection specifying reasonable cause for the inspection

4.6. Awards and Damages. All judgments, awards of damages, settlements and compensation made in connection with or in lieu of (a) taking of all or any part of or any interest in the Property by or under assertion of the power of eminent domain, (b) any damage to or destruction of the Property or any part thereof by insured casualty, and (c) any other injury or damage to all or any part of the Property, are hereby assigned to and shall be paid to the Lender. The Lender is authorized and empowered

(but not required) to collect and receive any such sums and is authorized to apply them in whole or in part upon any indebtedness or obligation secured hereby, in such order and manner as the Lender shall determine at its option. The Lender shall be entitled to settle and adjust all claims under insurance policies provided under this Deed of Trust and may deduct and retain from the proceeds of such insurance the amount of all expenses incurred by it in connection with any such settlement or adjustment. All or any part of the amounts so collected and recovered by the Lender may be released to Borrower upon such conditions as the Lender may impose for its disposition. Application of all or any part of the amounts collected and received by the Lender or the release thereof shall not cure or waive any default under this Deed of Trust. If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within thirty (30) days after the date such notice is mailed, Lender is authorized to collect and apply the proceeds, at Lender's option, either to restoration or repair of the Property or to the sum secured by this Deed of Trust.

4.7. Prohibition on Transfers of Interest. With the exception of the transfers permitted in Section 4.11 below, if all or any part of the Property or an interest therein is sold or transferred by Borrower without Lender's prior written consent, Lender may, at Lender's option, declare all the sums secured by this Security Instrument to be immediately due and payable. If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration in accordance with Section 6.9 hereof. Such notices shall provide a period of not less than 30 days from the date the notice is mailed within which Borrower may pay the sums declared due. If borrower fails to pay such sums prior to the expiration of such period, Lender may, without further notice or demand on Borrower, invoke any remedies permitted by Section 5.2(a) hereof.

4.8. Sale or Forbearance. No sale of the Property, forbearances on the part of the Lender or extension of the time for payment of the indebtedness hereby secured shall operate to release, discharge, waive, modify, change or affect the liability of Borrower either in whole or in part.

4.9. The Lender's Rights to Release. Without affecting the liability of any person for payment of any indebtedness hereby secured (other than any person released pursuant hereto), including without limitation any one or more endorsers or guarantors, and without affecting the lien hereof upon any of the Property not released pursuant hereto, at any time and from time to time without notice: (a) The Lender may, at its sole discretion, (I) release any person now or hereafter liable for payment of any or all such indebtedness, (II) extend the time for or agree to alter the terms of payment of any or all of such indebtedness, and (III) release or accept additional security for such indebtedness, or subordinate the lien or charge hereof; and (b) Trustee, acting pursuant to the written request of the Lender, may reconvey all or any part of the Property, consent to the making of any map or plot thereof, join in granting any assessment thereon, or join in any such agreement of extension or subordination.

4.10. Reconveyance. Upon payment of all sums secured by this Security Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Security Instrument and all notes evidencing indebtedness secured by this Security Instrument to Trustee. Trustee shall reconvey the Property without warranty and without charge to the person or persons legally entitled thereto. Such person or persons shall pay all costs of recordation, if any. The recitals in the reconveyance of any matters or facts shall be conclusive proof of the truthfulness thereof.

4.11. Requirement of Owner-occupancy and Permitted Transfers. Borrower shall occupy the Property as Borrower's principal place of residence during the term as described in the Note. Notwithstanding any other provision of the Note or this Deed of Trust, the following transfers shall not be deemed to be a default under the Note or this Deed of Trust:

- (a) The loans are assumable if the home is re-sold to another income-qualifying household after five years from the recordation of the deed of trust securing the BEGIN loan.
- (b) The transfer of the Property to the surviving joint tenant by devise, descent or operation of the law, on the death of a joint tenant.
- (c) A transfer of the Property where the spouse becomes an owner of the property;
- (d) A transfer of the Property resulting from a decree of dissolution of marriage, legal separation or from an incidental property settlement agreement by which the spouse becomes an owner of the Property.
- (e) A transfer to an inter vivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

5. EVENTS OF DEFAULT

5.1. Events of Default. Any one or more of the following events shall constitute a default under this Deed of Trust
(a) failure of the Borrower to pay the indebtedness secured hereby or any installment thereof, whether principal, interest or

otherwise, when and as the same become due and payable, whether at maturity or by acceleration or otherwise; or (b) failure of Borrower to observe or to perform any covenant condition or agreement to be observed or performed by Borrower pursuant to the Note or this Deed of Trust including but not limited to the occupancy of property by Borrower provision; or (c) the occurrence of any event which, under the terms of the Note, shall entitle the Lender to exercise the rights or remedies thereunder; or (d) the occurrence of any event which, under the terms of the First Note and First Deed of Trust shall entitle the Lender to exercise the rights or remedies thereunder.

5.2. Acceleration and Sale.

(a) **Acceleration.** Except as provided in Section 4.7, upon Borrower's breach of any covenant or agreement of Borrower in this Deed of Trust, including the covenants to pay when due any sums secured by this Deed of Trust, upon Borrower's failure to make any payment or to perform any of its obligations, covenants and agreements pursuant to the Note, Lender shall mail notice to Borrower as provided in Section 6.9 hereof specifying: (1) the breach; (2) the action required to cure such breach; (3) a date, no less than 30 days from the date the notice is mailed to Borrower, by which such breach must be cured; and (4) that failure to cure such breach on or before the date specified in the notice may result in acceleration of the sums secured by this Deed of Trust and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the nonexistence of a default or any other defense of Borrower to acceleration and sale. If the breach is not cured on or before the date specified in the notice, Lender at Lender's option may declare all of the sums secured by this Deed of Trust to be immediately due and payable without further demand and may invoke the power of sale and any other remedies permitted by applicable law. Lender shall be entitled to collect from the Borrower, or sale proceeds, if any, all reasonable costs and expenses incurred in pursuing the remedies provided in this paragraph, including, but not limited to, reasonable attorney's fees.

(b) **Borrower's Right to Reinstate.** Notwithstanding Lender's acceleration of the sums secured by this Deed of Trust, Borrower will have the right to have any proceedings begun by Lender to enforce this Deed of Trust discontinued at any time prior to five (5) days before sale of the Property pursuant to the power of sale contained in this Deed of Trust or at any time prior to entry of the judgment enforcing this Deed of Trust if: (1) Borrower pays Lender all sums which would be then due under this Deed of Trust and the Note, had no acceleration occurred; (2) Borrower pays all reasonable expenses incurred by Lender and Trustee in enforcing the covenants and agreements of Borrower contained in this Deed of Trust, remedies including, but not limited to, reasonable attorneys' fees; and (3) Borrower takes such action as Lender may reasonably require to assure that the lien of this Deed of Trust, Lender's interest in the Property and Borrower's obligation to pay the sums secured by this Deed of Trust shall continue unimpaired. Upon such payment and cure by Borrower, this Deed of Trust and the obligations secured hereby will remain in full force and effect as if no acceleration had occurred.

(c) **Sale.** After delivery to Trustee of a Notice of Default and Demand for Sale and after the expiration of such time and the giving of such notice of default and sale as may then be required by law, and without demand on Borrower Trustee shall sell the Property at the time and place of sale fixed by it in said notice of sale, at public auction to the highest bidder for cash in lawful money of the United States of America, payable at time of sale. Trustee may postpone sale of all or any portion of the Property by public announcement at such time and place of sale and from time to time thereafter may postpone such sale by public announcement at the time and place fixed by the preceding postponement. Any person, including Borrower, Trustee or the Lender, may purchase at such sale. Upon such sale by Trustee it shall deliver to such purchaser its deed conveying the Property so sold, but without any covenant or warranty expressed or implied. The recitals in such deed of any matters or facts shall be conclusive proof of their truthfulness. Upon sale by Trustee and after deducting all costs, expenses and fees of Trustee and of this Deed of Trust, Trustee shall apply the proceeds of sale to the payment of the principal indebtedness hereby secured, whether evidenced by the Note or otherwise, or representing advances made or costs or expenses paid or incurred by the Lender under this Deed of Trust, or the secured obligations or any other instrument evidencing or securing any indebtedness hereby secured and to the payment of all other sums then secured thereby, including interest as provided in this Deed of Trust, the secured obligations or any other such instrument, in such order as the Lender shall direct; and then the remainder, if any, shall be paid to the person or persons legally entitled thereto.

(d) **Assignment of Rents; Appointment of Receiver; Lender in Possession.** Upon acceleration under paragraph (a) of Section 5.2 hereof or abandonment of the Property, Lender (in person, by agent or by judicially appointed receiver) shall be entitled to enter upon, take possession of and manage the Property and to collect the rents of the Property (if any) including those past due. All rents collected by Lender or the Receiver shall be applied first to payment of the costs of management of the Property and collection of rents including, but not limited to, receiver's fees, premiums on receiver's bonds and reasonable attorney's fees, and then to the sums secured by this Security Instrument. Lender and the receiver shall be liable to account only for those rents actually received. The provisions of this paragraph and paragraph (a) of Section 5.2 shall operate subject to the claims of prior lien holders.

5.3. Exercise of Remedies; Delay. No exercise of any right or remedy by the Lender or Trustee hereunder shall constitute a waiver of any other right or remedy herein contained or provided by law, and no delay by the Lender or Trustee in exercising any such right or remedy hereunder shall operate as a waiver thereof or preclude the exercise thereof during the continuance of any default hereunder.

5.4. Trustee Substitution. The irrevocable power to appoint a substitute trustee or trustees hereunder is hereby expressly granted to the Lender, to be exercised at any time hereafter, without specifying any reason therefore by filing for record in the office where this Deed of Trust is recorded a deed of appointment, and said power of appointment of successor trustee or trustees may be exercised as often as and whenever the Lender deems advisable. The exercise of said power of appointment, no matter how often, shall not be deemed an exhaustion thereof, and upon recording of such deed or deeds of appointment, the trustee or trustees so appointed shall thereupon, without further act or deed of conveyance, succeed to and become fully vested with identically the same title and estate in and to the Property hereby conveyed and with all the rights, powers, trusts and duties of the predecessor in the trust hereunder, with the like effect as if originally named as trustee or as one of the trustees.

5.5. Remedies Cumulative. No remedy herein contained or conferred upon the Lender or Trustee is intended to be exclusive of any other remedy or remedies afforded by law or by the terms hereof to the Lender or Trustee but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity.

6. MISCELLANEOUS PROVISIONS

6.1. Successors, Assigns, Gender, Number. The covenants and agreements contained in this Deed or Trust shall bind, and the benefit and advantages under it shall inure to, the respective heirs, executors, administrators, successors and assigns of the parties. Wherever used, the singular number shall include the plural, and the plural the singular, and the use of any gender shall be applicable to all genders.

6.2. Headings. The headings are inserted only for convenience of reference and in no way define, limit, or describe the scope or intent of this Deed of Trust, or of any particular provision thereof, or the proper construction thereof.

6.3. Actions on Behalf of the Lender. Except as otherwise specifically provided herein, whenever any approval, notice, direction, consent, request or other action by the Lender is required or permitted under this Deed of Trust, such action shall be in writing.

6.4. Terms. The words "the Lender" means the present Lender, or any future owner or holder, including pledgee of the indebtedness secured hereby.

6.5. Obligations of Borrower. If more than one person has executed this Deed of Trust as "Borrower," the obligations of all such persons hereunder shall be joint and several.

6.6. Incorporation by References. The provisions of the BEGIN Program security instruments and the documents relating to that program are incorporated by reference as though set out verbatim.

6.7. Severability. If any provision of this Deed of Trust shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired.

6.8. Indemnification. Borrower will indemnify and hold the Lender, its officers and agents harmless against any and all losses, claims, demands, penalties and liabilities which the Lender, its officers or agents may sustain or suffer by reason of anything done or omitted in good faith pursuant to or in connection with this Deed of Trust and not assert any claim against the Lender, its officers or agents by reason of any action so taken or omitted. Borrower shall, at Borrower's expense, defend, indemnify, save and hold the Lender, its officers and agents harmless from any and all claims, demands, losses, expenses, damages (general, punitive or otherwise), causes of action (whether legal or equitable in nature) asserted by any person, firm, corporation or other entity arising out of this Deed of Trust and Borrower shall pay the Lender upon demand all claims, judgments, damages, losses or expenses (including reasonable legal expense) incurred by the Lender as a result of any legal action arising out of this Deed of Trust.

6.9. Notice. Except for any notice required under applicable law to be given in another manner (a) any notice to Borrower provided for in this Deed of Trust shall be given by mailing such notice by certified mail directed to the Property Address or any other address Borrower designates by notice to Lender as provided herein; and, (b) any notice to Lender shall be given by

certified mail, return receipt requested, to Lender's mailing address stated herein or to such other address as Lender may designate by notice to Borrower as provided herein. Any notice provided for in this Deed of Trust shall deem to have been given to Borrower or Lender when given in the manner designated herein.

6.10. Beneficiary Statement. Lender may collect a fee for furnishing the beneficiary statement in an amount not to exceed the amount as provided by Section 2943 of the Civil Code of California.

6.11. Use of Property. Borrower shall not permit or suffer the use of any of the Property for any purpose other than as a single family residential dwelling.

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust on the day and year set forth above. By signing below, Borrower agrees to the terms and conditions as set forth above.

MAILING ADDRESS FOR NOTICES:

SIGNATURE OF BORROWER(s):

(Street)

(City)

(State)

(Zip)

Acknowledgements

[Insert Name of Jurisdiction]

BEGIN PROGRAM

**FIRST-TIME HOMEBUYER
PROMISSORY NOTE**

**NOTICE TO BORROWER
THIS DOCUMENT CONTAINS PROVISIONS
RESTRICTING ASSUMPTIONS AND IS SECURED BY
A SECOND DEED OF TRUST ON RESIDENTIAL PROPERTY**

Loan No. _____

\$ _____, 20 _____

FOR VALUE RECEIVED, the undersigned, _____
(the "Borrower") hereby promises to pay to the order of _____
_____ ("Lender") at the following address _____
_____ or at such other place as the holder may from time to time
designate by written notice to Borrower, in lawful money of the United States, the sum of _____
_____ Dollars (\$ _____) with simple interest at the rate of _____
_____ percent per annum on the unpaid principal balance from the date of this Note, until paid. The obligation
of the Borrower with respect to this Note is secured by that certain BEGIN Program First-Time Homebuyer Deed of
Trust Loan No. _____ (the "Deed of Trust"), and executed by the Borrower concurrently herewith.

1. **Borrower's Obligation.** This Note evidences the obligation of the Borrower to the Lender for the repayment of funds loaned (the "BEGIN Program Loan") to finance the purchase of that certain real property (the "Property"), which has the address of _____
_____ (Street) _____ (City)
California, _____ more fully described in Exhibit A of the Deed of Trust.
_____ (Zip Code)
2. **Borrower(s) Acknowledge(s) and Agrees:** that the BEGIN Program Loan is subject to the terms, conditions, and restrictions of the State of California BEGIN Program as set forth in Health and Safety Code section 50860 et seq. and implementing guidelines adopted by the California Department of Housing and Community Development, all of which are hereby incorporated by reference.
3. **Repayment of Loan Principal and Interest.** No periodic payments are required hereunder. Borrower agrees to pay the unpaid principal balance, unpaid accrued interest, and any other amounts due under this Note upon the earlier of:
 - (a) 30 years from the date of this Note; or
 - (b) Upon sale, transfer, lease, or encumbrance of all or any interest in the Property without Lender's prior written consent, except for a transfer permitted in Paragraph 4; or
 - (c) Upon the maturity date, or full repayment, of any debt that is secured by a lien on the Property that is senior to the Deed of Trust; or
 - (d) Upon Borrower's failure to occupy the Property as Borrower's principal place of residence during the first five (5) years after the date of recordation of the deed of trust securing the BEGIN Program loan.

4. **Permitted Transfers.**

The BEGIN Program Loan is assumable under the following limited circumstances:

- (a) The loans are assumable if the home is re-sold to another income-qualifying household after five years from the recordation of the deed of trust securing the BEGIN Program loan.
- (b) The transfer of the Property to the surviving joint tenant by devise, descent or operation of the law, on the death of a joint tenant.
- (c) A transfer of the Property where the spouse becomes an owner of the property;
- (d) A transfer of the Property resulting from a decree of dissolution of marriage, legal separation or from an incidental property settlement agreement by which the spouse becomes an owner of the Property.
- (d) A transfer to an inter vivo trust in which the Borrower is and remains the beneficiary and occupant of the property.

5. **Acceleration of Payment.** The principal amount of this loan, together with any then outstanding accrued interest thereon shall become immediately due and payable, at the option of the holder and without demand or notice, upon the occurrence of any of the following events:

- (a) In the event of a default under the terms of this Note or the Deed of Trust;
- (b) In the event that the Borrower shall cease to occupy the Property as Borrower's principal place of residence during the first five year; or
- (c) In the event of any sale, transfer, lease, or encumbrance of the Property without Lender's prior written consent in violation of Paragraph 4 of this Note.

6. **Effect of Due-on Sale Clause.** Failure of the holder to exercise the option to accelerate payment as provided in Paragraph 5 of this Note will not constitute waiver of the right to exercise this option in the event of subsequent cause for acceleration. Failure by Borrower to occupy the Property as Borrower's principal place of residence shall be considered an on-going event of default under this Note.

7. **Place and Manner of Payment.** All amounts due and payable under this Note are payable at the principal office of the Lender set forth above, or at such other place or places as the Lender may designate to the Borrower in writing from time-to-time.

8. **Application of Payments.** All payments received on account of this Note shall be first applied to accrued interest, if any, and the remainder shall be applied to the reduction of principal.

9. **Attorney's Fees.** The Borrower hereby agrees to pay all costs and expenses, including reasonable attorney's fees, which may be incurred by the Lender in the enforcement of this Note.

10. **Default and Acceleration.** All covenants, conditions and agreements contained in the Deed of Trust are hereby made a part of this Note. The Borrower agrees that the unpaid balance of the then principal amount of this Note, together with all accrued interest thereon and charges owing, shall, at the option of the Lender or, if so provided in this Note and Deed of Trust executed by the Borrower, shall automatically, become immediately due and payable, and thereafter until paid bear interest at the rate of _____ % per annum, upon the failure of the Borrower to make any payment hereunder as and when due; upon the failure of the Borrower to perform or observe any other term or provision of this Note, or upon the occurrence of any event (whether termed default, event of default or similar term) which under the terms of the Deed of Trust, shall entitle the Lender to exercise rights or remedies thereunder.

11. **Notices.** Except as may be otherwise specified herein, any approval, notice, direction, consent, request or other action by the Lender shall be in writing and must be communicated to the Borrower at the address of the Property, or at such other place or places as the Borrower shall designate to the Lender in writing, from time to time, for the receipt of communications from the Lender. Mailed notices shall be deemed delivered and received five (5) working days after deposit in the United States mails in accordance with this provision

- 12. **Prepayment Policy:** Borrower may prepay this Note at any time without penalty.
- 13. **Governing Law.** This Note shall be construed in accordance with and be governed by the laws of the State of California.
- 14. **Severability.** If any provision of this Note shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.
- 15. **No Waiver by the Lender.** No waiver of any breach, default or failure of condition under the terms of the Note or Deed of Trust shall thereby be implied from any failure of the Lender to take, or any delay by the Lender in taking action with respect to such breach, default or failure or from any previous waiver of any similar or unrelated breach, default or failure; and a waiver of any term of the Note, Deed of Trust, or any of the obligations secured thereby must be made in writing and shall be limited to the express written terms of such waiver.
- 16. **Successors and Assigns.** The promises and agreements herein contained shall bind and inure to the benefit of, as applicable, the respective heirs, executors, administrators, successors and assigns of the parties.

Executed as of the date set forth above at _____, California
City

Borrower

Borrower

Mailing Address for Notices:



BEGIN PROGRAM 2011

Operations Handbook Appendices

Appendix A

Gross Income Inclusions

Appendix B

Gross Income Exclusions

APPENDIX B

Title 25 Section 6914 Gross Income Inclusions

“Gross income” shall mean the anticipated income of a person or family for the twelve-month period following the date of determination of income.

“Income” shall consist of the following:

(a) Except as provided in subdivision (b), “Exclusions”, all payments from all sources received by the family head (even if temporarily absent) and each additional member of the family household who is not a minor shall be included in the annual income as a family. Income shall included, but not be limited to:

- (1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;
- (2) The net income from operation of a business or profession or from rental or real or personal property (for this purpose, expenditures for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business);
- (3) Interest and dividends;
- (4) The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;
- (5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay
- (6) Public Assistance. If the public assistance payment includes an amount specifically designated for shelter and utilities which is subject to adjustment by the public assistance agency in accordance with the actual cost of shelter and utilities, the amount of public assistance income to be included as income shall consist of:
 - (A) The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus
 - (B) The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities,
- (7) Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;

All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family or spouse.

APPENDIX A

Title 25 Section 6914 Gross Income Exclusions

- (b) The following items shall not be considered as income:
- (1) Casual, sporadic or irregular gifts;
 - (2) Amounts which are specifically for or in reimbursement of the cost of medical expenses;
 - (3) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses;
 - (4) Amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment. Any amounts of such scholarships, or payments to veterans not used for the above purposes of which are available for subsistence are to be included in income;
 - (5) The special pay to a serviceman head of a family away from home and exposed to hostile fire;
 - (6) Relocation payments made pursuant to federal, state, or local relocation law;
 - (7) Foster child care payments;
 - (8) The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is in excess of the amount actually charged the eligible household;
 - (9) Payments received pursuant to participation in the following volunteer programs under the ACTION Agency:
 - (A) National Volunteer Antipoverty Programs which include VISTA, Service Learning Programs and Special Volunteer Programs.
 - (B) National Older American Volunteer Programs for persons aged 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Program to Assist Small Business Experience, Service Corps of Retired Executive (SCORE) and Active Corps of Executives (ACE).