

June 12, 2023

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Subject: **Amended and Adopted CalHome ADU/JADU Loan Program Guidelines**

Dear Mr. Watson,


Attached please find the City of East Palo Alto's amended and adopted CalHome ADU/JADU Loan Program Guidelines.

Section XI of the original guidelines state that the City may amend these guidelines. Resolution No. 155-2020, dated December 15, 2020, states that the City Manager is "authorized to execute in the name of the City of East Palo Alto the application, the Standard Agreement and any subsequent amendments or modifications thereto, as well as any other documents required by HCD for participation in the CalHome Program, and amendments thereto, in a form approved by the City Attorney, on behalf of the City."

The goal of the guideline amendments is to reduce barriers to accessing CalHome funds. Key amendments to the guidelines include increasing the loan amount to \$100K for all project types and removing the City's debt-to-income ratio requirement. In addition to making these guideline amendments, the City is working to streamline ADU development through development code updates and additional financial incentives.

We look forward to continuing working with you to provide low-income East Palo Alto residents with an opportunity to build accessory dwelling units.

Thank you,

DocuSigned by:  
  
4A361DD749224BE...  
Melvin E. Gaines, City Manager

DocuSigned by:  
  
2E2F160D4492A72...  
John D. Le, City Attorney

CC: Karen Camacho, Housing & Economic Development Manager  
Amy Chen, Community & Economic Development Director  
Tomohito Oku, Finance Director

Attachments:

Amended and Adopted CalHome ADU/JADU Loan Program Guidelines  
Resolution No. 155-2020

## **City of East Palo Alto CalHome ADU/JADU Loan Program Guidelines**

### **I. INTRODUCTION**

The CalHome ADU/JADU Loan Program is a program of the Department of Housing and Community Development (HCD) administered by the City of East Palo Alto and EPACANDO that provides gap funding to Lower Income homeowners in the form of a low-interest, deferred-payment loan to build an Accessory Dwelling Unit (ADU) or Junior Accessory Dwelling Unit (JADU) on their property.

The objective of the CalHome ADU/JADU Loan Program is to enable homeowners to develop ADU(s) and to expand housing opportunities for low-income households in the City of East Palo Alto.

Under the CalHome ADU/JADU Loan Program, the City provides participating homeowners with technical assistance and below-market financing to create independent units within existing homes, or by converting existing accessory structures into accessory dwelling units, or by building new detached ADUs.

### **II. DEFINITIONS**

**ADU or Accessory Dwelling Unit** a separate dwelling unit containing living, sleeping, kitchen, and sanitation facilities located on a site within a residential zone that already contains one legally created dwelling unit (as provided in Chapter 18.96 of the Municipal Code of the City of East Palo Alto).

**Borrower** an income-qualified East Palo Alto homeowner household who receives a CalHome ADU/JADU Loan.

**CalHome ADU/JADU Loan** gap loans for the construction, reconstruction, repair, or rehabilitation of ADUs/JADUs for Lower Income households, as defined in H.S.C. §50052.5(b).

**Deed of Trust** deed of trust that is recorded against the Property to secure performance under the Regulatory Agreement and repayment of the CalHome ADU/JADU Loan.

**Household** one or more persons who will occupy a housing unit. Household members are not restricted to immediate family. Persons not considered part of the Household include: non-related live-in caretakers paid from an outside source, foster children, unborn children, and children being pursued for legal custody or adoption who are not

currently living with the household. A child who is subject to a shared-custody agreement, in which the child resides with the household at least 50% of the time, can be counted.

**Household Income** the annual gross income of all adult Household members (18 years and over) that is projected to be received during the coming 12-month period. Household income is determined by utilizing the gross income determination requirements defined in California Code Regulations, title 25, section 6914 and Chapter 3 of the Income Calculation and Determination Guide for Federal Programs.

**JADU or Junior Dwelling Unit** a unit that is no more than 500 square feet in size and contained entirely within a single-family residence (as provided in Chapter 18.96 of the Municipal Code of the City of East Palo Alto).

**Loan Agreement** the Loan Agreement to be signed by Borrower and City that describes the CalHome ADU/JADU Loan to be provided by the City and the Borrower's obligations under the Program.

**Lower Income Household** (as defined in H.S.C. §50052.5(b)) a household with a household income at or below the federal Section 8 income limits adjusted by household size and area in which they reside, as updated annually.

**Main Dwelling** a single family home, attached or detached, that is occupied by the East Palo Alto homeowner household eligible for a CalHome ADU/JADU Loan.

**Owner-Occupant.** The Borrower must establish and occupy the Property as his/her primary residence. Fee simple title or a leasehold interest that enables the lessee to make improvements on and encumber the property and has a term sufficient to secure the CalHome program Loan.

**Property** the site of the Main Dwelling owned by the Borrower where the ADU/JADU is to be constructed.

**Regulatory Agreement** the agreement imposing ADU/JADU rental restrictions that is recorded against the Property.

### **III. ELIGIBILITY**

The City or its designee [EPACANDO] shall conduct income and eligibility screening for the CalHome ADU/JADU Loan Program.

#### **Eligibility Requirements**

Low-income households, as defined in **Section II. Definitions**, are eligible for the CalHome ADU/JADU Loan Program. The Borrower household must be the owner and the primary occupant of the Main Dwelling at the time of application, and the Borrower must remain the primary occupant of either the Main Dwelling or the ADU/JADU after completion of ADU/JADU construction. The Main Dwelling must be located within the boundaries of the City of East Palo Alto.

#### **Type of Housing Units Eligible**

1. A single family home, attached or detached, whose lot is within a residential or mixed- use zoning district and includes one proposed or legally created dwelling
2. A single family home, attached or detached that currently has an active code case with the City of East Palo Alto
  - When applicable, Borrower is to provide Notice of Violation.
  - The post-improvement/post-rehabilitation value of an eligible single family home may not exceed the median value for the County of San Mateo. The post-improvement value shall be determined based on the median sales price of single family homes in San Mateo County, as published on the Multiple Listing Service (MLS) or San Mateo County Association of Realtors (SAMCAR).

#### **Residency & Ownership Qualification**

To demonstrate residency and ownership, the Borrower shall be required, at a minimum, to submit the following documentation for Household Income qualification:

- Current homeowners insurance policy
- Utility bill current within the last 60 days

#### **Income Qualification**

To demonstrate income eligibility, the Borrower shall be required, at a minimum, to submit the following documentation for Household Income qualification:

- 2 most recent months of pay stubs
- 2 most recent years of tax returns
- 2 most recent months of bank statements

## Household Income Calculation and Household Size Determination

Household Income shall be calculated as the annual gross income of all adult (18 years of age or older) Household members that is projected to be received during the coming 12-month period. The gross annual income is determined by calculating the Household's total current monthly income and then multiplying that total by 12. If the current monthly income deviates by more than 15% from the preceding 12-month average, the gross annual income shall be determined by combining the preceding half year's gross income with one-half year's gross income at the current level.

The income verification may not be more than six months old at the time of loan funding (not at the time of loan approval).

The following is included in the calculation of gross annual Household income:

- All wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services, before payroll deductions;
- The net income from the operation of a business or profession or from the rental of real or personal property (without deducting expenditures for business expansion or amortization of capital indebtedness, or any allowance for depreciation of capital assets);
- Interest and dividends (including income from assets, but only if applicable)
- 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, including any lump sum payment for the delayed start of a periodic payment;
- Payments in lieu of earnings, such as unemployment, disability compensation, and severance pay;
- The maximum amount of public assistance available to household members, other than the amount of assistance specifically designated for shelter and utilities;
- Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the home;
- All regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of household or spouse.

The following is not included when in the calculation of gross annual income:

- Casual, sporadic or irregular gifts;
- Amounts that are specifically for, or in reimbursement of, medical expenses;
- Lump sum additions to household assets, such as inheritances, insurance payments (including payments under health and accident insurance and

- workmen's compensation), capital gains, and settlement for personal losses;
- Monies received for educational scholarships paid either directly to students, or to the educational institution, as well as amounts paid by the Government to a Veteran of the U.S. Armed Forces for use in meeting the costs of tuition, fees, books, and equipment. Any money received over and above the associated educational costs listed are not exempt and considered income;
  - Special pay to a person in the U.S. Armed Forces who is head of household who is deployed and exposed to hostile fire;
  - Foster childcare payments;
  - The value of benefits received from the Supplemental Nutrition Assistance Program;
  - Payments to volunteers under the Domestic Volunteer Service Act of 1973;
  - Income derived from certain sub-marginal land of the United States that is held in trust for certain Indian tribes;
  - Payments or allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program; and
  - Payments received from the Job Training Partnership Act.

A percentage of the Household's income from assets shall be added to the Household Income Calculation for households with assets in excess of \$5,000. In those cases, the Household Income Calculation shall include the greater of: 1.) the actual income derived from such assets or 2.) a percentage of the value of such assets based on the current passbook savings rate, as specified by HUD.

Household assets shall only be considered for the determination of income eligibility calculation. Households will not be required to liquidate their assets to qualify for a CalHome ADU/JADU Loan. However, it is expected that the Household invests their funds first and only rely on the CalHome ADU/JADU Loan as gap financing.

Once Household size and gross income information have been established and verified, this information shall be compared to the published State income limits to determine eligibility for participation in the CalHome Program.

### **Financial Capacity**

The Borrower must demonstrate financial capacity to complete the project. To demonstrate financial capacity, the Borrower shall be required, at a minimum, to submit the following documentation for Household Income qualification:

- Project Budget
- Evidence of credit commitments and cash adequate to cover total Project Costs

when combined with CalHome ADU/JADU Loan.

Borrower loan qualifications and documentation are addressed in **Section VI. Underwriting Requirements** below.

#### **IV. ELIGIBLE COSTS**

A CalHome ADU/JADU Loan may be used for the following activities:

- Cost of construction, reconstruction, repair, conversion or rehabilitation;
- Cost of structural modifications to the existing home necessary to accommodate an ADU or JADU Cost of building permits and other related public agency fees, including all fees necessary to build and occupy an ADU or a JADU;
- Cost of an appraisal, architectural, engineering, and other consultant services that are directly related to planning or construction;
- Non-recurring Loan closing costs.

A CalHome ADU/JADU Loan may not be used for the following activities:

- Cost of installing, replacing or renovating the Main Dwelling, except as directly connected to the ADU or JADU physically or functionally;
- Costs directly or indirectly related to the planning or construction of the ADU or JADU which have been or will be reimbursed as an eligible Activity Delivery Fee expense.

#### **V. MAXIMUM ASSISTANCE AMOUNT**

Maximum assistance shall not exceed \$100,000. The Homeowner shall provide to the City evidence in such form as required by the City that sufficient funds are available and committed to cover the additional Project costs [see **Section III. Eligibility – Financial Capacity**].

The total loan amount (not to exceed \$100,000) shall be divided into three distinct components:

1. **Plans & Permits** (more or less than \$25,000)
2. **System Upgrades** (more or less than \$25,000)
3. **Construction Allowance** (up to \$100,000)

Payment phases are further described in the Cash Payment Schedule in **Section IX. CalHome ADU/JADU Program Construction Requirements** below.

The total loan amount shall be determined by the City and/or its designee based on the following:

- The selected bid contractual amount;
- Supplemental inspections, including but not limited to termite, roofing, etc.;
- Project budget with a contingency of at least 10 percent;
- Title insurance fees and notary or document preparation fees;
- Delivery fees, if any;
- Relocation expenses, if any.

## **VI. LOAN REQUIREMENTS**

As part of the CalHome ADU/JADU Loan Program application, the Borrower must submit documentation to EPACANDO for loan prequalification. Borrowers are encouraged to work with EPACANDO through the entirety of the planning and construction process. EPACANDO shall review factors including, but not limited to: loan to value ratio of the property and credit history of the Borrower.

### **Underwriting Requirements**

- The Borrower(s) must have a middle FICO credit score of 680 or higher.
- The Loan-to-Value Ratio, when combined with all other indebtedness secured by the property, may not exceed 100% of the pre-improvement value or 80% of the post-improvement value of the property, whichever is smaller.

The full loan application shall be submitted by the Borrower, with assistance from EPACANDO, to Meriwest Credit Union for underwriting.

The following documentation is included in the Loan Application:

- Drivers License or identification;
- Last 2 years of W-2s for all borrowers;
- Last 2 pay stubs for all borrowers;
- 2 most current bank statements;
- Credit report (authorization to pull credit);
- Tax returns from past 2 years;
- Copy of current mortgage payment statement or coupon and copy of homeowners insurance page that shows the amount of insurance coverage and premium.



## **Maximum Loan-to-Value Ratio/Value of the Security**

The Loan-to-Value Ratio, when combined with all other indebtedness secured by the property, may not exceed 100% of the pre-improvement value or 80% of the post-improvement value of the property, whichever is smaller.

The post-improvement value shall be determined using the sales of comparable properties approach using the median sales prices of single family homes in San Mateo County, as published on the Multiple Listing Service (MLS) or San Mateo County Association of Realtors (SAMCAR), or a similar approach which has the same result of protecting the homeowner from over-encumbering their property.

If the Borrower has obtained a recent (i.e., within 90 days of CalHome ADU Loan qualification date) appraisal of the post-improvement value of the property as part of qualifying for a cash-out refinance or home equity line of credit (HELOC) as part of financing the ADU/JADU, the City or its designee may use such appraisal.

In the absence of such available methods, the post-improvement value may be determined by a licensed appraiser. If applicable, the cost of the appraisal shall be combined into the loan assumed by the Borrower.

## **VII. LOAN AND INSURANCE DOCUMENTS**

The following documents shall be prepared for Loan closing:

- Owner/Contractor Contract;
- Truth In Lending Disclosure Statement;
- Loan Agreement;
- Promissory Note(s);
- Deed of Trust (notarized);
- Regulatory Agreement (notarized) for Rental Unit;
- Request for Notice of Default (notarized);
- Notice of Right to Cancel (three-day rescission option);
- Evidence of Hazard Insurance naming City as loss payee;
- Evidence of flood insurance;
- Commitment for issuance of a lender's title insurance policy for the benefit of City;
- Estimated settlement statement.

All loans made to the Borrower from the CalHome ADU/JADU Loan Program shall be evidenced by a Promissory Note, the repayment of which is secured by Deed of Trust. These documents shall include provisions necessary to ensure that the Property being assisted with CalHome funds remains affordable and that CalHome funds are recaptured upon sale of the Property.

Upon expiration of the three-day rescission period, the Loan Agreement, the Deed of Trust, Regulatory Agreement, and Request for Notice of Default shall be recorded against the Property, and the title company selected by the City shall issue a lender's policy of title insurance for the benefit of the City insuring the City's lien.

All applicable documents shall be executed and recorded prior to disbursement of CalHome ADU/JADU Loan funds.

Any funds the Borrower will contribute toward construction or other costs must be deposited into escrow at closing of the CalHome ADU/JADU Loan.

### **Insurance Requirement**

As noted in above, the Borrower must show evidence of property insurance, including fire and flood insurance if applicable, which must be maintained during the life of the CalHOME ADU/JADU Loan. The City must be named as loss payee in first position or additional insured if the loan is a junior lien.

The Homeowner must have sufficient insurance to cover the amount of the CalHome ADU/JADU Loan and all senior liens, up to the full value of the ADU/JADU post-construction. The City must be named on the policy as mortgagee/loss payee for the full term of the ADU Loan. Coverage deficiencies must be corrected as a condition of ADU Loan approval.

Further information on ongoing insurance requirements can be found in the attached Loan Servicing Plan.

### **Loan Terms**

CalHome ADU/JADU Loans are deferred-payment loans bearing an interest rate of three percent (3%) simple interest. The Borrower is required to live on the property in the Main Dwelling or the ADU/JADU unit as their primary residence continuously and must recertify annually that they are the residents of the Main Dwelling or ADU/JADU and are the owners of both.

The Borrower is required to rent the ADU/JADU or the Main Dwelling to a Lower Income tenant household. Failure to rent to a Lower Income Household shall constitute a default of the CalHome ADU/JADU Loan.

CalHome ADU/JADU Loans are not assumable. The CalHome ADU/JADU Loan balance is immediately due and payable upon a change in occupancy. For further guidance on loan repayment, see the attached Loan Servicing Plan.

The Borrower may voluntarily prepay all or any portion of the CalHome ADU/JADU Loan at any time without penalty. If Borrower wishes to prepay the CalHome ADU/JADU Loan, the Borrower shall follow the procedures outlined in the attached Loan Servicing Plan.

## **IX. CALHOME CONSTRUCTION REQUIREMENTS**

The ADU/JADU shall be constructed pursuant to the terms of the Loan Agreement and in strict accordance with any drawings, specifications, and/or other related documents submitted to and approved by the City and in compliance with all applicable laws, regulations, and rules of all governmental agencies having jurisdiction. This includes, but is not limited to, Chapter 18.96 (Accessory Dwelling Units) of the Municipal Code of the City of East Palo Alto.

The Borrower shall be responsible for securing or causing to be secured all permits, licenses and approvals which may be required by any governmental agency having jurisdiction over the Borrower's property and ADU/JADU project. Nothing in these CalHome ADU/JADU Loan Program Guidelines shall represent, warrant, or guarantee that the City shall approve any permits, applications, plans, drawings, or other documents or submittals for the Project and homeowner assumes the risk thereof.

### **Scope of Work and Contractor Selection Process**

Prior to the closing of the CalHome ADU/JADU Loan, the City or its designee [EPACANDO], shall complete an assessment of the Property which includes pre-design plans, cost estimates, and financing options. During this time, the City or its designee shall assist the Borrower to develop a Scope of Work based on this assessment and facilitate communication with potential contractors. Upon the Borrower's written acceptance of the Scope of Work, the City or its designee shall assist the Borrower to secure the contractor.

### **Contractor Selection Process**

Upon the Borrower's selection of a contractor, the Borrower shall execute a construction contract directly with the contractor using standard documents substantially in a form approved by the City and in compliance with the CalHome Standard Agreement.

The contractor must be actively licensed by and bonded with the California State Licensing Board (CSLB). The contractor must have insurance in accordance with City-

required limits, listing the Property address and naming the City and the Borrower as additional insured.

The construction contract shall include a start and completion date, payment schedule, and a clause that specifies that any extra work must be agreed to in writing and approved by City staff and the Borrower. The construction contract shall also specify that construction may not commence until the City or its designee issues a Notice to Proceed. This contract shall be executed concurrently with the Loan Documents as described in **Section VII**.

### **Pre-Construction Conference**

When applicable, prior to the start of construction of the ADU/JADU, the City or its designee shall lead a pre-construction conference with the Borrower, the selected contractor, and any sub-contractors to develop a construction schedule, select materials, and review the terms of the contract.

### **Work Inspections**

The City or its designee shall inspect any work performed under the CalHome ADU/JADU Loan program to ensure the work is being and has been performed in accordance with the applicable federal, state and/or local requirements, any applicable construction contract, and the CalHome Standard Agreement with the Department of Housing and Community Development. All work found by such inspections not conformed to the applicable requirements shall be corrected, and payment withheld to the contractor or subcontractor until it is so corrected.

Additional inspections may occur at other times in the construction process as deemed appropriate by the City or its designee and with authorization of the Borrower.

### **CalHome ADU Loan Payment Schedule**

CalHome ADU Loan payments shall be released based on the project achieving certain specified milestones. CalHome Loan payments shall be issued in installments after a work inspection is completed by the City or its designee at the following points (note that if the loan is covering full construction costs, the program administrator can determine the payment installments):

1. Building Permit Issuance: more or less than \$25,000
2. Foundation Approval or the equivalent if rehab: more or less than \$12,500
3. System Upgrade signed off or Plumbing inspection passed: more or less than \$12,500
4. Drywall inspection signed off, or equivalent if rehab: more or less than \$40,000
5. Final inspection passed: more or less than \$10,000

The 10% Lien Release Contingency shall be held for 35 days after recordation of the Notice of Completion and will be released upon verification by City staff that no liens were recorded. Substantial completion shall be defined as 100% completion with no outstanding deficiencies.

### **Prevailing Wage Requirement**

Construction funds provided through the CalHome ADU/JADU Loan Program shall meet the requirements of Chapter 1 (commencing with Section 1720) of Part 7 of the Labor Code (pertaining to the payment of prevailing wages and administered by the California Department of Industrial Relations), and in particular the exemption of construction and rehabilitation of privately owned residential projects (Section 1720(c)(5)).

### **Signage**

During the construction period, the California Department of Housing and Community Development may place one or more signs on the construction site stating that it is providing financing for the development.

## **X. CALHOME PROGRAM RENTAL REQUIREMENTS**

Borrowers shall rent the ADU/JADU constructed with a CalHome ADU/JADU Loan at an affordable rent to a Lower Income Household, as defined in H.S.C. §50053. The affordable rent shall be provided by the City or its designee based on the income limits published annually by the [California Department of Housing and Community Development](#) and utilizing the occupancy standard of the number of bedrooms plus one.

The Borrower shall be responsible for selection of an eligible tenant but may work with the City's designee [EPACANDO] to identify suitable tenants. The City shall review the proposed tenant's income and proposed rent prior to signing of lease and prior to tenant move-in. The Borrower must comply with all applicable city, state, and federal laws pertaining to renting residential properties, including without limitation, all applicable fair housing and nondiscrimination laws, landlord-tenant laws, and local good cause for eviction and tenant protection laws.

ADU/JADUs constructed with a CalHome ADU/JADU Loan shall be rented for a minimum of 30 days; no short-term or vacation rentals shall be permitted.

The CalHome ADU/JADU Program rental requirements shall be specified in the Regulatory Agreement that is recorded against the property at loan closing. If the Borrower ceases to rent the ADU/JADU in compliance with the Regulatory Agreement (other than for normal unit turnover or repairs) and other applicable agreements, then the CalHome ADU/JADU Loan shall become immediately due and payable.

## **XI. AMENDMENTS**

The City may make amendments to these CalHome ADU/JADU Loan Program Guidelines. Any changes made shall be in accordance with federal and state regulations and shall be submitted to the California Department of Housing and Community Development for approval.

## **XII. ATTACHMENTS**

1. Loan Servicing Plan
2. Reuse Account Plan
3. Income Limits
4. Marketing Plan

## **Attachment 1**

### **LOAN SERVICING PLAN**

The City of East Palo Alto (City) will contract with East Palo Alto Community Alliance and Neighborhood Development Organization (EPACANDO) /and AmeriNat as a third-party service provider to administer the CalHome ADU/JADU Loan Program. The City will be responsible for overseeing the administration and operation of the CalHome ADU/JADU Loan Program and for servicing of CalHome ADU/JADU Loans after construction is completed.

The City will receive loan payments and maintain a financial record-keeping system to record payments and file statements on payment status. Payments will be deposited and accounted for in the City's Program Income Account, as required by all California State Department of Housing and Community Development ("Department") programs.

The City will accept loan payments from Borrowers prepaying deferred loans and from Borrowers making payments in full upon sale or transfer of the property.

The City may, at its discretion, enter into an agreement with a third party to collect and distribute payments and/or perform some or all loan servicing aspects of the CalHome ADU/JADU Loan Program.

The City outlines its Loan Servicing Plan ("Plan") for the CalHome ADU/JADU Loan Program below.

#### **ANNUAL REVIEW OF OWNER-OCCUPANCY REQUIREMENT**

The Borrower is required to live on the property in the Main Dwelling or the ADU/JADU unit as their primary residence. Borrowers are required to recertify annually that they are the residents of the Main Dwelling or ADU/JADU and are the owners of both. Owner occupancy will be verified through utility bills or similar documentation.

The Borrower must also submit documentation acceptable to the City establishing that the household occupying the rental unit is income-eligible (i.e., Lower Income, as defined in H.S.C. §50052.5(b)) to reside in the unit and that the monthly rent charged meets affordability requirements. Short-term rental of the units is prohibited.

The CalHome ADU/JADU Loan balance is immediately due and payable upon a change in title, occupancy, or use. CalHome ADU/JADU Loans are not assumable. Changes in title, occupancy, or use include, but are not limited to, the following:

- The sale of the main dwelling.
- Conversion of any units on the property from owner-occupied to rental.
- Conversion of the property to a fully non-residential use.
- Transfer of the property through inheritance.

Exceptions to the change in occupancy may include additions of family members to the title as part of estate planning, or partial conversion of property to non-residential use, e.g., if the residence is used for business but the household still resides on the property. Any of these City approved changes in title or occupancy must be in keeping with the objective of benefit to Lower Income households, as applicable.

There are some limited circumstances under which the CalHome loan may be transferable. *Transfer* means any sale, assignment or transfer, voluntary or involuntary, of any interest in either the main dwelling or the ADU/JADU, including, but not limited to, a fee simple interest, a joint tenancy interest, a life estate, a leasehold interest, an interest evidenced by a land contract by which possession of the property is transferred and Borrower retains title, or a deed of trust.

With City approval, the following transfers may not result in the CalHome Loan becoming due and payable:

1. Transfer to a spouse or domestic partner;
2. Addition of spouse or domestic partner to title where the spouse or domestic partner becomes the co-owner of the main dwelling;
3. Transfer between spouses as part of a marriage dissolution proceeding;
4. Transfer to spouse or domestic partner following death of the Borrower;
5. Transfer via an inter vivos trust in which the Borrower is the beneficiary;
6. Refinance of the first loan, provided Borrower follows all requirements under subsection Requests for Subordination.

In all cases where there is a change in title, occupancy, or use, the Borrower must notify the City.

## **ANNUAL REVIEW OF HAZARD AND FLOOD INSURANCE**

The Borrower must maintain property insurance, including fire and flood insurance if applicable, during the life of the CalHome ADU/JADU Loan. The City must be named as loss payee in first position or additional insured if the loan is a junior lien.

The Borrower must have sufficient insurance to cover the amount of the CalHome ADU/JADU Loan and all senior liens, up to the full value of the ADU post-construction. The City must be named on the policy as mortgagee/loss payee for the full term of the CalHome ADU/JADU Loan. Coverage deficiencies must be corrected as a condition of



CalHome ADU/JADU Loan approval.

The City will review insurance information on an annual basis as part of its annual CalHome ADU/JADU Loan monitoring process. Borrowers will be required to submit verification of the current required insurance policies. Failure to maintain the proper insurance will constitute a default of the CalHome ADU/JADU Loan. If the Borrower fails to maintain the necessary insurance, the City may take out force-placed insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of the Borrower's new insurance.

### **TIMELY PAYMENT OF PROPERTY TAXES AND ASSESSMENTS**

The Borrower is responsible for making property tax payments on a timely basis during the term of the loan.

The City encourages Borrowers to have impound accounts set up with their first mortgagee to pay their taxes and insurance as part of their monthly mortgage payment.

The City will review property tax and assessment payment information on an annual basis as part of its annual CalHome ADU/JADU Loan monitoring process. Borrowers will be required to submit verification that property tax payments are current.

Failure to pay property taxes on a timely basis will constitute a default of the CalHome ADU/JADU Loan. In the case of failure to maintain payment of property taxes, the City may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan.

### **LOAN REPAYMENTS**

The City is the recipient of any interest and principal payments on CalHome ADU/JADU Loans from Borrowers. While payments on the CalHome ADU/JADU Loan are deferred, Borrowers may opt to make payments to lower the balance of the CalHome ADU/JADU Loan at any time with no penalty. Loan payments will be credited to the interest first and then to principal.

CalHome ADU/JADU Loans must be paid in full if the property including the ADU is transferred, except as expressly allowed under the Program Guidelines, or otherwise becomes out of compliance.

The City will deposit the CalHome ADU/JADU Loan repayment into the City's CalHome Account, as defined in the CalHome Reuse Account Plan, so that it can be reused for an eligible CalHome activity.

CalHome ADU/JADU Loan construction projects may result in a credit to the principal due to funds not being expended on the project. If this occurs, a principal reduction will be made to the CalHome ADU/JADU Loan for amounts less than \$1,000. For amounts exceeding \$1,000, a loan modification will be prepared and executed with the new loan amount.

### **PROPERLY CALCULATING PAYOFFS**

Borrowers are eligible to pay-off their loans at any time without penalty. Payoff amounts are determined by the amount of the original CalHome ADU/JADU Loan plus any accrued interest minus payments received toward the CalHome ADU/JADU Loan, if any.

Borrowers may make voluntary payments to lower the balance of the CalHome ADU/JADU Loan. Any payments received will be applied to the applicable account and considered when calculating the payoff amount.

Any payments received towards the CalHome ADU/JADU Loan will be applied first to accrued interest, then toward the principal. The funds will be placed in a Reuse Account and be reused for eligible Program purposes (see Reuse Account Plan).

### **PROCESSING DEMANDS**

Requests for payoff demands should be addressed to the City. When the City receives a demand letter from a Borrower or a Borrower's representative, such as a title company, lender or legal representative, the City will calculate the payoff amount in accordance with the provisions of the Loan Documents, as defined in the Program Guidelines. Within 21 days of receipt of the demand letter, the City will issue a written payoff demand, including a daily calculation of interest and any other amounts due, depending on the terms of the Promissory Note.

Within 21 days of payoff, the City will execute and deliver to the Borrower the reconveyance of the Promissory Note and Deed of Trust and record them with the County of San Mateo.

### **REQUESTS FOR SUBORDINATION**

If the Borrower wishes to refinance an existing senior lien, they must request a subordination by the City. The City will only subordinate its loan when there is no "cash

out” as part of the refinance and places the Borrower in a more favorable position. “Cash out” means there are no additional charges on the transaction above loan and escrow closing fees. There can be no third-party debt pay offs or additional encumbrance on the property above traditional refinance transaction costs. Furthermore, the refinance should lower the housing cost of the Borrower with a lower interest rate and the total indebtedness on the property should not exceed the current market value.

The term of the new senior lien must be at least for the period remaining on the CalHome ADU/JADU Loan and must mature concurrently with, or after, the CalHome lien. The new loan must be amortized for the entire period of the loan. Negative amortization, balloon payments, or changes in payments are not allowed.

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

### **REQUEST FOR NOTICE OF DEFAULT**

The City will prepare and record a Request for Notice of Default for each senior lien in front of the CalHome ADU/JADU Loan. This document requires any senior lien holder listed in the notice to notify the City of initiation of a foreclosure action. The City will then have time to contact the Borrower and assist them in bringing the first loan current or to determine if the loan can be made whole or preserved. If the City is in third position and receives notification of foreclosure from only one senior lien holder, it may contact any other senior lien holders regarding the status of their loans.

### **COLLECTION OF CALHOME ADU/JADU LOAN PROGRAM NOTES IN DEFAULT OR FORECLOSURE**

In the event of any default by Borrower of one or more of the CalHome ADU/JADU Loan terms, the City may initiate foreclosure proceedings. The City will first issue a letter to the Borrower notifying them of the default situation. If the default situation continues, the City may start a formal process of foreclosure.

The sale proceeds will be applied as follows:

1. The reasonable and necessary expenses for preparing and conducting the sale including space rent and any other expenses incurred by the City;
2. The satisfaction of indebtedness secured by all senior liens or encumbrances in order of their priority;
3. The satisfaction of indebtedness secured by the security interest of the City’s lien;
4. The satisfaction of indebtedness secured by any subordinate liens or encumbrances on the property in the order of their priority; and
5. To the registered owner within 45 days after the sale if a surplus remains.

## Attachment 2

### REUSE ACCOUNT PLAN

**Purpose:** The State of California CalHome Program requires jurisdictions to establish guidelines on the policies and procedures for the administration and utilization of program income received as a result of activities funded under the CalHome Program.

**Reuse Plan Governing Regulations:** This Reuse Plan is intended to satisfy the requirements specified in Article 2, Section 7724 (Reuse Account) of the CalHome Program, Title 25 California Code of Regulations, Division 1, Chapter 7, Subchapter 9, Commencing with Section 7715. The Authority cited: Section 50406(n) and 506650.2, Health and Safety Code. Reference: 50650.3 (b), Health and Safety Code. This Reuse Plan has been developed to meet that requirement.

**Definition.** Reuse Account funds are defined as funds received by the City that have been directly generated from the use and return of CalHome Program funds. Examples of Reuse items include the following: payments of principal and interest on the CalHome Program loans as well as interest earned on account accrual.

**Reuse Account.** All repayments of CalHome ADU/JADU Loan principal and any CalHome interest shall be deposited into a separately maintained Reuse Account. All interest earned on deposited CalHome Program funds will accrue to the Reuse Account and be reused for eligible CalHome Program activities.

**Portfolio Management Costs.** Costs of managing the portfolio of CalHome funded loans may be charged to the Reuse Account under Activity Delivery Fees within the allowable limits set by the Department.

**Reuses of Funds.** Reuse Account funds will only be used for CalHome Program eligible activities:

1. Gap loans for ADU/JADU construction, reconstruction, repair, or rehabilitation to Lower Income households; or
2. Up to five percent (5%) of deposited funds for loan servicing by the City or a third-party loan servicer.

Loans from the Reuse Account may be made to homebuyers in areas not previously allowed, or in loan amounts differing from the prior loan amounts. Before making such new loans, the City shall create updated CalHome Program Guidelines to which the new loans must conform. Loans made with some funds from the reuse

account and some funds from the grant are not subject to the restrictions of the grant.

**Distribution and Tracking of Reuse Account Funds.** The City will institute a tracking system to track:

1. The receipt of CalHome loan repayments and interest accrual into the Reuse Account. Loan repayments towards the principal loan amount and repayments towards interest accrued on the loan will be tracked separately.
2. The allocation of Reuse Account funds to new loans to ADU/JADU development.
3. The use of funds for processing fees and other eligible activity delivery fees and loan servicing fees (of up to 5%).

Loan repayments deposited into the Reuse Account and loan disbursements from the Reuse Account will be tracked by borrower name, loan number, loan amount, and grant year.

**Reporting and Federal Overlay Compliance.** The City will comply with all State reporting requirements, including submittal of Quarterly and Annual Status Reports on CalHome Program funds. The City will ensure that the use of funds under this Reuse Plan complies with all CalHome Program requirements. To ensure ongoing compliance with CalHome requirements, the City will utilize the latest available State of California CalHome Program Management Manual for guidance on compliance procedures and policies.

**Long Term Monitoring Agreement.** The City will enter into a long-term monitoring agreement with the Department allowing Department monitoring of reuse accounts for compliance with all program requirements.

**Maximize Funds in Reuse Account.** The City will strive to utilize reuse funds on a revolving basis in a timely manner and will not stockpile funds.

**Revising this Plan.** City staff is authorized to amend this document as necessary to maintain compliance with CalHome Program requirements. All modifications to the Reuse Account Plan are subject to final approval by the Department.

**Attachment 3**

**INCOME LIMITS**

**Will be attached**

## **Attachment 4**

### **MARKETING PLAN**

*A. Program Outreach and Marketing* All outreach efforts will be done in accordance with state and federal fair housing and lending laws to ensure nondiscriminatory treatment, outreach and access to the Program. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender, gender identity or sexual orientation, be excluded, denied benefits, or be subjected to discrimination under the Program. The City will ensure that all persons, including qualified individuals with disabilities, have access to the Program.

*B. Fair Housing* The Fair Housing Lender logo will be placed on all outreach materials. Flyers or other outreach materials, in English and Spanish, will be distributed in the Program area, and will be provided to local social service agencies.

*C. Dispute Resolution and Appeals Procedure* Any applicant denied participation in the Program has the right to appeal. The appeal must be made in writing and addressed to the City's Housing Manager, who will make a determination in writing within 30 days of receipt of the appeal. If the applicant's appeal is denied, a further appeal may be made to the City Council which will make a determination in writing within 30 days of receipt of the second appeal. The decision of the City Council will be final.

*D. Non-Discrimination Requirements* The Program will be implemented consistent with the City's commitment to nondiscrimination. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under, any program or activity funded in whole or in part with City or State funds on the basis of his or her religion or religious affiliation, age, race, color, creed, gender, gender identity, sexual orientation, marital status, familial status (children), physical or mental disability, national origin, or ancestry, or other arbitrary cause.



STATE OF CALIFORNIA            )  
 COUNTY OF SAN MATEO        )  
 CITY OF EAST PALO ALTO      )       **CERTIFIED COPY OF RESOLUTION**

I, Walfred Solorzano, City Clerk for the City of East Palo Alto, County of San Mateo, State of California, do hereby certify that **Resolution No. 155-2020**, the original copy of which is attached hereto was adopted on the 15<sup>th</sup> day of December 2020.

**AYES:**                    ABRICA, GAUTHIER, LOPEZ, WALLACE-JONES, and ROMERO  
**NOES:**                    NONE  
**ABSENT:**                NONE  
**ABSTAIN:**               NONE

The resolution is effective as of the 15<sup>th</sup> day of December 2020.

The undersigned City Clerk of the City of East Palo Alto there before named does hereby attest and certify that the foregoing is a true and full copy of the Resolution of the City Council of the City of East Palo Alto adopted at a duly convened meeting on the date above-mentioned, which has not been altered, amended or repealed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the city seal of the City of East Palo Alto.



  
 \_\_\_\_\_  
 Walfred Solorzano, City Clerk



**RESOLUTION NO. 155 – 2020**

**A RESOLUTION OF THE CITY COUNCIL  
OF THE CITY OF EAST PALO ALTO**

**AUTHORIZING THE SUBMITTAL OF AN APPLICATION TO THE CALIFORNIA STATE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT FOR FUNDING UNDER THE CALHOME PROGRAM; THE EXECUTION OF A STANDARD AGREEMENT IF SELECTED FOR SUCH FUNDING AND ANY AMENDMENTS THERETO; AND ANY RELATED DOCUMENTS NECESSARY TO PARTICIPATE IN THE CALHOME PROGRAM**

**WHEREAS**, the City of East Palo Alto, a political subdivision of the state of California (“City”), wishes to apply for and receive an allocation of funds through the CalHome program; and

**WHEREAS**, the State of California Department of Housing and Community Development (“HCD”) has issued a Notice of Funding Availability (“NOFA”) on November 27, 2019 as amended on December 23, 2019, for the CalHome Program established by Chapter 84, Statutes of 2000 (SB 1656 Alarcon), and codified in Chapter 6 (commencing with Section 50650) of Part 2 of Division 31 of the Health and Safety Code (“statute”). Pursuant to the statute, HCD is authorized to approve funding allocations utilizing monies made available by the State Legislature to the CalHome program, subject to the terms and conditions of the statute and the CalHome Program Regulations adopted by HCD in April 2004; and

**WHEREAS**, the City wishes to submit an application to obtain from HCD an allocation of CalHome funds in the amount of \$2,000,000.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EAST PALO ALTO HEREBY that:**

1. Resolution No. 04-2020 is hereby rescinded.
2. The City of East Palo Alto shall submit to HCD an application to participate in the CalHome Program in response to the NOFA issued on November 27, 2019 and amended on December 23, 2019 which will request a funding allocation for the following activities: \$2,000,000 for the purposes of providing loans to owner-occupants for new construction, repair, reconstruction, or rehabilitation of ADUs/JADUs located in East Palo Alto, California.
3. If the application for funding is approved, the City of East Palo Alto hereby agrees to use the CalHome funds for eligible activities in the manner presented in the application as approved by HCD and in accordance with program regulations cited above. The application in full is incorporated as part of the Standard Agreement. Any and all activities funded, information provided, and timelines represented in the application are enforceable through the Standard Agreement. The City of East Palo Alto acknowledges and agrees that it may be required to execute any and all other instruments necessary or required by HCD for participation in the CalHome Program.
4. The City Manager is hereby authorized to execute in the name of the City of East Palo Alto the application, the Standard Agreement, and any subsequent amendments or modifications thereto, as well as any other documents required by HCD for participation in the CalHome Program, and any amendments thereto, in a form approved by the City Attorney, on behalf of the City.



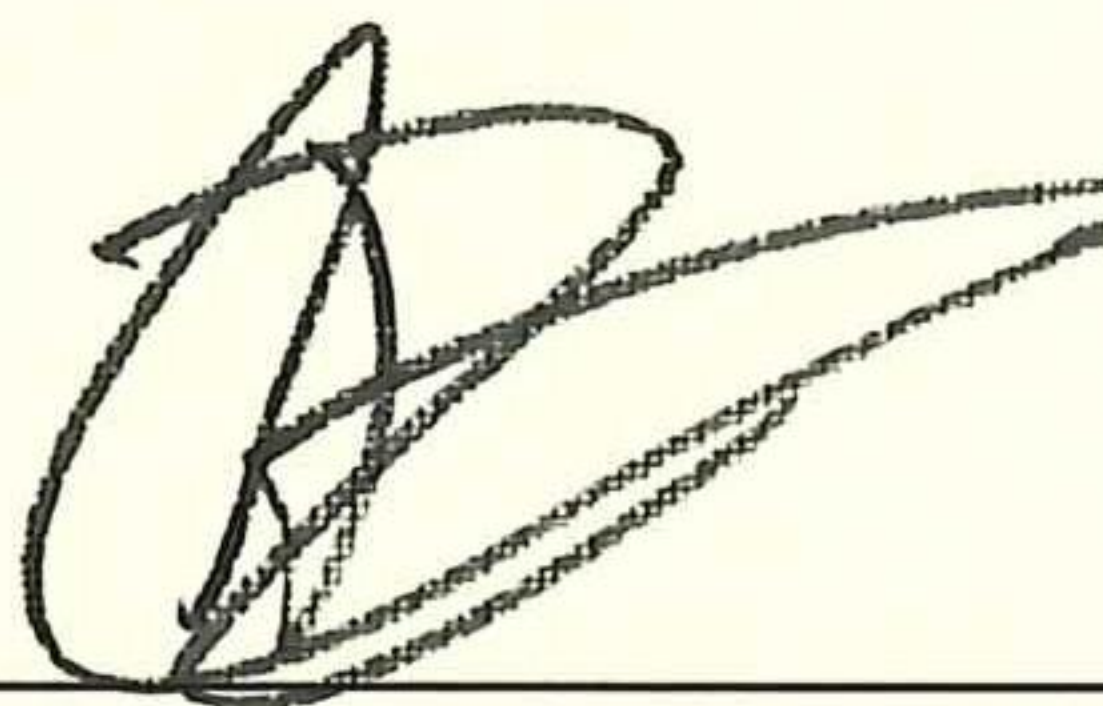
PASSED AND ADOPTED this 15<sup>th</sup> day of December 2020, by the following vote:

**AYES:** Abrica, Gauthier, López, Wallace-Jones, and Romero

**NOES:**

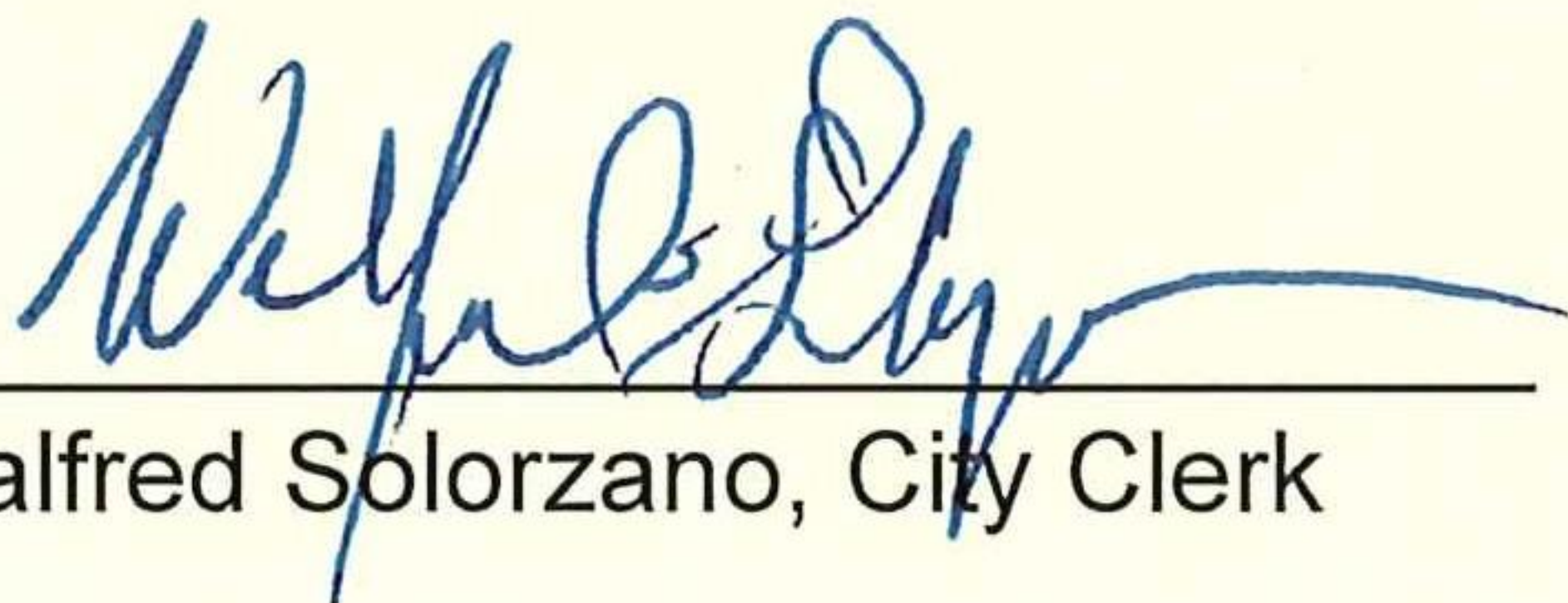
**ABSENT:**

**ABSTAIN:**



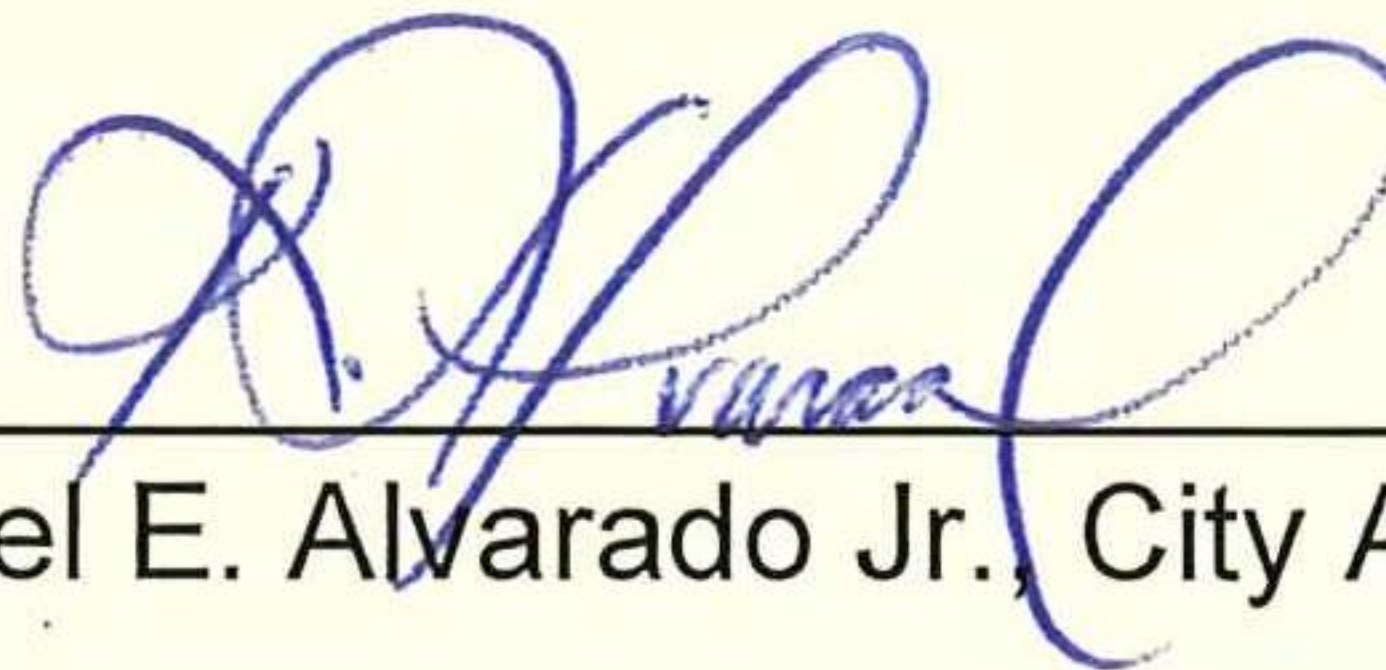
\_\_\_\_\_  
Carlos Romero, Mayor

**ATTEST:**



\_\_\_\_\_  
Walfred Solorzano, City Clerk

**APPROVED AS TO FORM:**



\_\_\_\_\_  
Rafael E. Alvarado Jr., City Attorney