

# CITY OF MENLO PARK



## PURCHASE ASSISTANCE LOAN (PAL)

*A FIRST-TIME HOMEBUYER*

*SECOND MORTGAGE LOAN PROGRAM*

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## GUIDELINES AND APPLICATION

2010

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# I. PROGRAM DESCRIPTION

## A). Introduction

The City of Menlo Park is pleased to offer the ***Purchase Assistance Loan (PAL) Program*** to help low and moderate-income homebuyers purchase homes in Menlo Park. The PAL Program provides qualified low and moderate-income first-time homebuyers who currently live or work in Menlo Park with affordable second/junior mortgage loans. The PAL second mortgage can finance up to 20% of a home's purchase price, or \$75,000, whichever amount is less. Homes may be located anywhere within incorporated city of Menlo Park.

The City recognizes the serious financial obstacles that low and moderate-income households face when trying to purchase homes in Menlo Park. The high cost of housing in the city is prohibitive and many households who live and/or work in Menlo Park are unable to buy homes here. For these households, buying homes requires that they purchase outside (sometimes far outside) the city. The result is that persons who currently live in Menlo Park, or grew up in Menlo Park, must leave the community they call home and in which they may be actively involved. It also means that persons who currently work in Menlo Park but purchase homes elsewhere may have to choose between commuting and finding new jobs that are closer to home. The loss of both residents and employees due to high housing costs is a loss and a challenge not only to our neighborhoods and businesses but also to the community at large.

To help first-time homebuyers purchase homes in Menlo Park, PAL second mortgages are provided and financed by the City of Menlo Park. At the time of purchase, PAL loans are combined with first, or primary, mortgage loans. Typically the first mortgages are provided by conventional mortgage lenders such as banks, credit unions, or mortgage brokers. Homebuyers may also make cash down payments if desired or required by their first mortgage lenders. PAL loans may be combined with affordable home loan financing from the Federal Housing Administration (FHA), the California Housing Finance Agency (CalHFA), the Veteran's Administration (V.A.), and California's CalVet for veterans. PAL may also be used with San Mateo County's Mortgage Credit Certificate (MCC) Program.

The PAL Program will lend a qualified first-time homebuyer up to 20% of a home's purchase price or \$75,000 (whichever amount is less) to purchase a home located within incorporated city of Menlo Park. The PAL loan is deferred for the first 5 years of the loan (no payments at 0% interest), followed by 30 years of monthly payments (amortized at 5% fixed interest). The total PAL loan term is 35 years (5 years deferred plus 30 years amortized).

A substantial benefit of the PAL Program is that first mortgage lenders may be able to apply PAL to help meet buyers' down payment requirements. The down payment requirement is expressed as a percentage of the purchase price and is determined by

the first mortgage lender, according to the terms of the first mortgage. Buyers must be able to meet their first mortgage lenders' down payment requirements so this can be an important benefit to using PAL.

When PAL is applied to the down payment requirement it may also help homebuyers avoid having to purchase Private Mortgage Insurance (PMI). Typically, first mortgage lenders require borrowers to purchase PMI whenever their down payments are less than 20% of the purchase price. PMI is a charge that is paid *in addition to* the monthly principal and interest mortgage payment. By not having to pay PMI, borrowers can save on monthly payments for their first mortgage loans.

The table below is an example of how PAL can help moderate-income households afford homes in Menlo Park. This example is for a household size of three persons with a gross (pre-tax) annual household income of \$102,600. The gross monthly household income is \$8,550. The maximum monthly mortgage payment allowed by many mortgage lenders is approximately 33% of gross monthly income. Using the 33% standard, the household in this example can afford a monthly mortgage payment of \$2,822.

In the following table, **Column A** shows the amount that the example household can afford to purchase without using PAL. The buyer provides a 5% down payment. However, a 5% down payment is not enough to avoid the requirement to purchase PMI. *The first mortgage in Column A is calculated as a standard, 30-year mortgage at an interest rate of 7%.*

**Column B** in the table below shows the amount that the example household can afford to purchase if they do use a PAL second mortgage. As before, the buyer provides a 5% down payment (which is a somewhat larger sum in this example because the purchase price is higher). However, the PAL second mortgage allows the buyer to meet the 20% down payment necessary to avoid PMI. The savings created by not having to pay PMI is calculated in this example as a 1% lower interest rate on the first mortgage. *Therefore, the first mortgage in Column B is calculated as a 30-year mortgage at an interest rate of 6%.*

**Example of how PAL works:**

	<b>Column A: Without PAL</b>	<b>Column B: With PAL</b>
First Mortgage	424,168	470,686
5% Down Payment, Cash	22,325	28,720
PAL Second Mortgage	0	75,000
<b>Home Purchase Price =</b>	<b>\$446,493</b>	<b>\$574,406</b>

The City of Menlo Park administers the PAL application process. Once PAL loans are funded the City of Menlo Park also services the loans. Servicing includes the processing of monthly PAL payments, etc.

## **B). Homebuyer/Borrower Eligibility Requirements**

A borrower is eligible to receive a PAL loan if he or she meets the requirements described below. In order to determine eligibility for the PAL Program, the borrower must complete and submit a PAL application to the City of Menlo Park Housing Division. If needed, program staff is available to assist the borrower(s) in completing the application.

To be eligible for PAL, the borrower must meet all of the following requirements:

### 1. First-Time Homebuyer Status

The borrower (and any co-borrower) may not currently own a home as his/her primary residence and must be a first-time homebuyer. A “first-time homebuyer” is defined as an individual who has not had an ownership interest (such as fee simple, joint tenancy, tenancy in common, life estate, shareholder in a cooperative, or interest held in trust for the individual that would constitute an ownership interest if held by the individual) in his/her primary residence within the three (3) years immediately preceding the date of PAL application submission.

### 2. Low to Moderate Household Income

The borrower’s gross annual household income may not exceed 120% of the San Mateo County median income adjusted for household size. Current income limits are shown in Section III (page 18).

***Household Income*** is defined as that income determined by the first mortgage lender to be stable household income used to qualify the borrower for the first mortgage loan. If an individual is a member of the household and will reside in the home being purchased, then that individual’s income must be included in the determination of household income, unless the individual is a full-time student or under the age of 18.

***Household*** is defined as a single person, or two or more persons sharing residency whose income resources are available to meet the household’s needs and who are related by blood, marriage or operation of law, or who give evidence of a stable relationship which has existed over a period of at least one (1) year.

### 3. Asset Limit

Borrower households with assets valued **up to** 50% of the purchase price of the home are considered eligible. This means that households with assets valued greater than 50% of the home purchase price are not eligible for the PAL Program.

Examples of assets include checking and savings accounts, stocks, bonds, inheritance, trust funds, boats, jewelry, and real property. For the purposes of this program, assets do not include funds dedicated to federally recognized retirement programs, such as I.R.A. and 401(k) programs, and company pension and retirement plans. Assets also do not include dedicated education funds/savings accounts, cars, and furniture (except cars and furniture held as investments such as vintage and/or luxury cars, and antiques).

### 4. Live and/or Work in Menlo Park

A minimum of 50% of the ownership interest in the property must be vested in a borrower who:

- Currently lives in incorporated city of Menlo Park and has lived in Menlo Park consistently for at least one (1) year prior to the date of PAL application submission. This must be the borrower's primary residence.

**OR**

- Currently works in incorporated city of Menlo Park and has worked in Menlo Park consistently for at least one (1) year prior to the date of PAL application submission.

Qualified work is defined as any of the following: (1) owning and operating a business in Menlo Park; (2) employment for wages or salary for an employer located at a Menlo Park location; (3) contract employment where the actual work is conducted at a Menlo Park location; or (4) commission work, up to and including a 100% commission arrangement, conducted in Menlo Park.

Work must average a minimum of 20 hours per week over the course of the qualifying one-year period. Unpaid volunteer work does not qualify.

### 5. Qualify for a First Mortgage

To finance the total purchase price of the home, the borrower(s) must be able to qualify for a first mortgage loan secured by a deed of trust. The first mortgage provides primary loan financing for purchase of the home. The City of Menlo Park does not finance the first mortgage. The City of Menlo Park finances the PAL loan

only. PAL is a second/junior mortgage and is used in addition to the first mortgage to finance the price of the home.

The PAL loan provides up to 20% of a home's purchase price, or \$75,000, whichever amount is less. The remainder of the home's purchase price is financed through the first mortgage or a combination of the first mortgage and a payment in cash (down payment) from the borrower.

Although the PAL Program does not require the borrower to make a down payment, in many cases it may be necessary or desirable for the borrower to make a down payment in order to reduce the amount of first mortgage financing that is needed. The need for the borrower to make a down payment in addition to financing provided by the first and second mortgages is dependent upon many factors, including home purchase price and the terms of the first mortgage.

The borrower may use the first mortgage lender of his or her choice. Typically the first mortgage is provided by a conventional mortgage lender such as a bank or credit union, or a mortgage broker.

The first mortgage lender must use the following criteria when qualifying the borrower for the first mortgage:

- Federal Home Loan Mortgage Corporation (FHLMC)/Freddie Mac

**OR**

- Federal National Mortgage Association (FNMA)/Fannie Mae

**OR**

- Other prudent and appropriate qualifying criteria commonly used in the lending industry.

## 6. Co-Borrowers

All co-borrowers must meet first-time homebuyer, income limit, and asset limit requirements. At least one co-borrower must meet the residence or employment requirement.

## **C). Property Requirements**

In addition to meeting all of the borrower eligibility requirements, the borrower must also comply with the following property requirements to be eligible to receive a PAL loan. These requirements pertain to the property/home to be purchased:

1. Purchase Price

The maximum purchase price of the home is the fair market value of the home. A home may not be purchased for a price that is *higher than* fair market value.

2. Location

The property to be purchased must be located within the boundaries of incorporated city of Menlo Park.

3. Type of Residence

The property must be a single-family residence defined as an attached or detached residential unit, condominium, manufactured home, cooperative unit, or mobile home, which allows the PAL loan to be secured by the program's standard deed of trust.

4. Occupancy Standards

The total number of people who will occupy the home cannot exceed the limits set forth under the City of Menlo Park's Uniform Housing Code Occupancy Standards. (See the PAL Application Packet, form PAL-003 for specific standards.)

5. Primary Residence

The purpose of the PAL Program is to assist qualified borrowers/homebuyers to purchase primary residences in Menlo Park. A home purchased with a PAL loan must be occupied by the borrower. *Use of the property for rental purposes is not allowed and will immediately cause the PAL loan to become due and payable.*

**D). Program Requirements**

The following requirements apply to the PAL loan itself:

1. PAL Loan Amount

The loan amount that PAL may provide is a maximum of up to 20% of the home's purchase price, or \$75,000, whichever amount is less.

At purchase, the total value of all mortgage loans may not exceed 100% of the appraised value of the home being purchased (the borrower may not take cash out or receive a loan/loans that total more than the value of the home). The borrower may obtain 100% financing for the home if allowed by the first mortgage lender and the terms of the first mortgage loan.

## 2. PAL Loan Terms and Conditions

The term of the PAL loan is 35 years and is structured as follows:

- Payments and interest are deferred for the first 5 years of the loan term. This means that for the first 5 years of the loan, zero interest accrues and zero payments are required.
- The following 30 years of the loan term are fully amortized (monthly principal and interest payments required) at a 5% fixed interest rate.

Monthly principal and interest payments will commence at the beginning of the sixth year. The loan is due and payable upon sale of the home or transfer of title, or if the owner ceases to occupy the property as a principal residence.

## 3. Down Payment, PMI and Closing Costs

The PAL Program does not require the borrower to make a down payment when using the PAL loan to purchase a home. The borrower's first mortgage lender determines the down payment requirement, according to the terms of the first mortgage. Typically the first mortgage lender requires a down payment of 3%-20% of the home's purchase price. In some cases, the borrower may have the option of receiving a loan package that provides 100% financing (including the PAL loan), which means that no down payment is required or provided. The PAL Program does allow this option of 100% financing, but only if the arrangement is permitted by the first mortgage lender AND is determined by program staff to provide a sustainable and beneficial financial situation for the borrower.

In some cases, the PAL loan is applied by the first mortgage lender to help meet the down payment requirement. Since the PAL loan can provide up to 20% of the purchase price (or \$75,000, whichever amount is less), in some cases the borrower may not have to make an additional cash payment in order to meet the down payment requirement. However, in cases where PAL provides less than the down payment requirement (this will depend on the type of loan and the cost of the home), the borrower will need to supplement the PAL loan with a cash payment in order to meet the requirement. To help with this, eligible borrowers may wish to secure an additional source of funding if appropriate (for example, the CalHFA HiCAP Loan Program; see page 13).

In addition to the first mortgage lender's down payment requirement, the borrower may also wish to make a cash payment in order to avoid having to purchase **Private Mortgage Insurance (PMI)**. Typically the first mortgage lender requires the borrower to purchase PMI whenever the down payment is less than 20% of the purchase price. For example, a 15% down payment requirement may be met by a \$75,000 PAL loan (the maximum dollar amount provided by PAL). However, the borrower may still need to make a payment in cash equal to 5% of the purchase

price to meet the minimum 20% of purchase price requirement for avoiding PMI. This is true even though in this example the down payment requirement itself was already met by the PAL loan.

Closing costs are the borrower's responsibility, but may be paid by the seller if negotiated as part of the sales agreement.

#### 4. Determining PAL Eligibility

If a borrower would like to receive a PAL loan, the City of Menlo Park must first determine that the borrower is eligible for the program. A borrower is eligible according to the eligibility requirements identified in this document (the Program Guidelines).

To determine eligibility for a PAL loan, the borrower must submit a PAL application (including all supporting worksheets and documents) to the City of Menlo Park Housing Division. An application is attached to these guidelines, which can be obtained through the City's Housing Division. Once the PAL application is complete and all supporting documents have been submitted, City/program staff will review the complete application to determine the borrower's eligibility for the program.

PAL loan applications are processed on a first-come, first-served basis and only complete applications are accepted.

#### 5. PAL Pre-Approval

Once program staff has reviewed the PAL application and determined that the borrower is eligible for the program, staff will provide the borrower at his or her request with a letter of pre-approval stating that the borrower is eligible to receive a PAL loan. The borrower is then able to take this letter to a first mortgage lender as evidence of the borrower's eligibility to receive a PAL second mortgage. The letter of pre-approval is not a guarantee of funding. It simply states that the borrower currently meets all requirements for participation in the program.

Once the borrower receives pre-approval for PAL financing, he/she should begin looking earnestly for a home to purchase. To purchase a home, the borrower will need to contact a realtor and a first mortgage lender (or mortgage broker). The first mortgage lender will provide the borrower with primary loan financing for the purchase of the home.

#### 6. Primary/First Mortgage

Primary financing for home purchase (the first mortgage loan) may be provided by a first mortgage lender of the borrower's choice. However, in order to utilize PAL partner programs, including the Mortgage Credit Certificate (MCC) Program and the CalHFA HiCAP Loan Program, the borrower must work with a first mortgage lender

that is a *participating* MCC or CalHFA Program lender. The MCC Program and the CalHFA HiCAP Loan Program are discussed in further detail under “PAL Partner Programs”, located on page 12.

The borrower’s first mortgage (and any other mortgage at purchase) must have a fixed interest rate and monthly payments that include both principal and interest.

**First mortgage loans with any of the following components *for any period of time* are NOT allowed:**

- Negative amortizing.
- Adjustable interest rate and/or graduated payments (for instance an Adjustable Rate Mortgage or A.R.M.).
- Interest-only mortgage payments.

The PAL loan may not be used/combined with any other mortgage that contains one (or any combination of) the above listed components or features for any term or period of time.

#### 7. First Mortgage Lender Responsibilities

The first mortgage lender will:

- Make or arrange for the borrower/homebuyer to obtain a first mortgage secured by a deed of trust.
- Provide the City/program staff with a copy of the first mortgage application and supporting documents as requested.

#### 8. Subordination

PAL loan recipients are eligible to refinance their mortgage(s) at any time following home purchase. However, if the borrower chooses to refinance his/her first mortgage (or any mortgage senior to the PAL loan) he/she must either: (1) pay off the existing PAL loan, or (2) acquire a new, refinanced first mortgage that meets PAL Program subordination requirements, subject to City staff’s review.

The City of Menlo Park will subordinate (keep in place) an existing PAL second/junior mortgage to a refinanced first/senior mortgage if the borrower meets all of the following conditions/requirements:

- At the time of the request for subordination, meets the current income criteria for the PAL Program (cannot exceed maximum income limit per household size);  
and

- Is refinancing the existing first mortgage for the purposes of reducing his/her/their monthly housing expenses; and
- Is refinancing the amount of the balance of the first mortgage plus the cost of refinancing; and
- Is not taking any cash out of the refinance; and
- Has sufficient equity in the property so that the total loans-to-value is at least the same after the refinance as it was when the property was purchased.

If deemed appropriate, the City of Menlo Park will consider requests for an exception to these subordination requirements. City staff must present requests for an exception to the City of Menlo Park Housing Loan Committee for approval.

## 9. Insurance

The City will require a title insurance policy, a homeowner's insurance policy having the same coverage as required by the first/primary lender, and flood insurance, if applicable. The City must be named as a loss payee on all applicable policies.

## **E). PAL Partner Programs**

To further enhance the affordability of home purchase in Menlo Park, the following programs may be used in addition to the PAL Program:

### 1. Mortgage Credit Certificate (MCC) Program

San Mateo County's Mortgage Credit Certificate (MCC) Program is a federal tax credit program that may be used to complement PAL. MCC's are an option for interested and qualified PAL applicants if they are available. The County cannot guarantee that MCC's will be available to PAL applicants/borrowers at any given time.

**If the borrower would like to use the MCC Program to complement the PAL loan, he/she must work with a first mortgage lender that is a participating MCC lender. A *participating MCC lender* is a mortgage broker, mortgage banker, or conventional lender who has executed a participation agreement with the County.**

The MCC Program is an independent, County-run program that has its own eligibility criteria and application procedure. To learn more about the MCC Program and receive a list of participating lenders, contact Scott Coe in the County of San Mateo Department of Housing at (650) 802-5045.

## 2. California Housing Finance Agency (CalHFA) Loan Programs

The PAL loan may also be used with CalHFA loan programs. The California Housing Finance Agency (CalHFA) offers a variety of affordable loan programs for eligible low-to-moderate income first-time homebuyers. CalHFA home loan programs include first mortgages, second mortgages, and various supplemental loan programs. CalHFA home loans may be used in addition to the PAL loan. The City of Menlo Park's PAL is an approved CalHFA partner program.

All CalHFA loan programs are independent, state-run programs and their eligibility requirements are different from those of the PAL Program. CalHFA has an application and review process that is separate from the PAL application process. To apply for a CalHFA loan (or loans) the borrower must use a first mortgage lender that is a participating CalHFA lender. A participating lender is a lender that has previously agreed to process CalHFA loans. Participating lenders can be conventional lenders such as banks, credit unions, or mortgage brokers. The borrower applies for a CalHFA loan(s) through the participating CalHFA lender of his or her choice. The participating lender will determine if the borrower is eligible for CalHFA loan programs and will handle the CalHFA loan application process.

If the borrower would like to use a CalHFA loan program(s), he or she should speak to a participating CalHFA lender. PAL Program staff will work with the borrower's participating lender throughout the PAL application and review process. The borrower should apply for the PAL loan in accordance with normal PAL application procedures (PAL applications are not submitted to or processed by participating CalHFA lenders).

To learn about CalHFA loan programs and acquire a list of participating CalHFA lenders, please visit the CalHFA website at <http://www.calhfa.ca.gov/>. Borrowers can also ask any mortgage lenders they may already be considering whether or not they are participating CalHFA lenders.

## 3. Other First/Primary Mortgage Programs

The PAL loan may also be used with Federal Housing Administration (FHA), Veterans' Administration (VA), and CalVet mortgage loans. Not all lenders make these loans but many do. Providers of these loans include conventional lenders such as banks, credit unions, and mortgage brokers. The borrower should ask his or her first lender if they provide these loans. The first lender will determine if the borrower is eligible for any of these loans and will handle the loan application process for them. The borrower should apply for the PAL loan in accordance with normal PAL application procedures.

## II. ADMINISTRATION AND PROCEDURE

### A). Overview

In general, borrowers apply for PAL in accordance with normal mortgage application procedures. Once the borrower has been pre-approved for PAL and has completed the first mortgage loan application, the first mortgage lender must provide the City of Menlo Park with a copy of the first mortgage application and all supporting documents as requested by City/program staff.

PAL Program processing procedures are designed to coincide with the standard mortgage loan processing and underwriting procedures that are common in the lending industry. There are of course procedural variations among lenders, thus the processing procedures outlined here are meant to serve as guidelines with respect to the PAL Program.

The guiding principles of PAL processing procedures are:

1. PAL Program staff and borrower will meet or discuss to see if borrower may be eligible for PAL. If it appears that borrower is or may be eligible based on borrower's reported information and/or submission of preliminary documentation, PAL Program staff will advise the borrower to talk to or meet with a first/primary mortgage lender (if the borrower has not done so already) to find out about getting pre-approved for a first or primary loan amount. This will enable the borrower to determine whether or not home purchase is currently a viable and/or good option for him or her (that is, whether he or she is "mortgage ready"). The borrower may find that he or she needs to improve his or her credit first, and/or that he or she is presently unable to qualify for home loan financing sufficient to purchase a property of the borrower's choosing.
2. PAL Program staff will provide the borrower with general information about the home purchase process and primary home loan financing, including affordable home loan and other opportunities such as the CalHFA, FHA, VA, CalVet and/or MCC Programs. These programs can be combined with the City's PAL to help eligible and qualified borrowers purchase homes in Menlo Park. PAL borrowers may also utilize conventional loans to purchase homes.
3. The borrower should inform his or her first/primary mortgage lender that he/she appears eligible for PAL. At the borrower's request, the City will issue the borrower a PAL pre-approval letter stating that the borrower is or may be eligible to receive a PAL second mortgage/junior loan. ***The pre-approval letter is not a guarantee of approval or funding.*** The borrower may also wish to explore affordable home loan opportunities such as the CalHFA, FHA, VA, CalVet and/or MCC Programs. He or she may wish to acquire participating lender lists for one or more of these programs,

if applicable, or discuss them (or other options) with the first mortgage provider of his or her choice.

4. Once the borrower has been pre-approved for a first/primary loan amount or financing package, he or she should begin looking earnestly for a home, if he or she has not already begun doing so. The borrower may or may not wish to enlist the services of a realtor.
5. Once the borrower anticipates that he or she is ready (or almost ready) to start making offers on homes, he or she should formally apply for PAL by completing the PAL application and providing the City/program staff with all supporting documentation as required. As necessary, program staff may request additional supporting documents/information from the borrower to determine his or her eligibility for the program. If borrower has already chosen a first/primary mortgage lender and provided them with supporting documentation, the first lender may, at borrower's request, provide the City/program staff with any documentation as required.
6. Once PAL staff has received the borrower's application and all required supporting documentation (a complete application package), it may take up to one or two weeks for program staff to complete its review and officially determine the borrower's eligibility for the PAL Program.
7. The borrower will be officially notified in writing of his or her eligibility for PAL. **Note that this is not a guarantee of funding.** Program staff will provide the borrower's first/primary mortgage lender with a copy of this letter of eligibility.
8. The borrower's first/primary mortgage lender will arrange the borrower's first mortgage and (excluding PAL) any additional financing that may make up the borrower's total home finance package. The borrower must apply separately for the first mortgage, in accordance with the lender's standard application procedure. The first mortgage (and any additional financing besides PAL) is NOT arranged or provided by the City.
9. The borrower's first/primary mortgage lender will provide PAL Program staff with a copy of the borrower's application package for home loan financing, including for example such documents as the borrower's signed loan application, credit reports for all borrowers, a property appraisal, preliminary title report, Good Faith Estimate, and HUD-1 or Estimated Settlement Statement.
10. Once the borrower's offer has been accepted and a fully executed purchase contract is in place, the borrower or the borrower's first/primary lender will provide the City/program staff with a copy of the purchase contract.

11. Based on review of the first/primary mortgage lender's application and loan package, City/program staff will determine if the borrower's overall home financing package meets City/PAL Program criteria.
12. Once the first/primary mortgage lender has locked the borrower's interest rate and/or finalized the terms of the primary loan and any additional loans arranged by the first/primary lender, City/program staff will convene a Housing Loan Committee (see below). Program staff will recommend approval or denial of the loan to the Loan Committee, which will make a final determination regarding the borrower's receipt of a PAL loan. Only the Housing Loan Committee can approve funding of PAL loans.
13. Once the borrower receives final approval for a PAL loan, PAL staff will prepare all PAL loan documents and forward them to the title company for signature by the borrower.
14. The City will coordinate escrow of the PAL funds with the first/primary mortgage lender and the title/escrow company.

## **B). City Loan Approval**

Once City of Menlo Park program staff has received all required information from the borrower and the first mortgage lender, the City will convene a loan committee that will make a final determination regarding the borrower's receipt of a PAL loan. The loan committee will consist of one member of the Housing Commission, one representative from the City of Menlo Park Finance Division, and one representative from the City of Menlo Park Planning or Engineering Divisions.

The Housing Commission representative on the loan committee may be any member in good standing of the Housing Commission. If one or both of the representatives from the City of Menlo Park Finance and/or Planning and Engineering Divisions who normally sits on the loan committee is not available, a substitute representative may sit on the loan committee for that person. Following a recommendation by City program staff, the loan committee will make the final determination regarding PAL funding approval.

If the borrower is given final approval for the PAL loan, the City of Menlo Park will issue the borrower a letter stating final approval and identifying the exact loan amount (which in no case will exceed 20% of the home's purchase price, or \$75,000, whichever amount is less).

The first mortgage lender may not charge the City or the homebuyer for its support in processing the PAL loan application. *However, this does not preclude the first mortgage lender from charging its normal application and loan fees in association with the first mortgage.*

### **C). Underwriting Requirements**

The intent of the City of Menlo Park is to approve PAL Program loans that follow the guidelines established by Fannie Mae or Freddie Mac for the underwriting of the first mortgage.

Applicants must demonstrate compliance with the Homebuyer/Borrower Eligibility Requirements (pages 5-7), Property Requirements (pages 7-8) and Program Requirements (pages 8-12).

### **D). Loan Closing**

The City of Menlo Park Housing Division will prepare the PAL loan documents and coordinate escrow of PAL funds. The following serve as guidelines for loan closing:

- The City/program staff will prepare PAL loan documents and forward them, along with escrow instructions, to the title company.
- The borrower will sign the PAL loan documents.
- The title/escrow company will fax the first and last pages of the signed PAL Promissory Note and Deed of Trust along with their wire instructions to the City of Menlo Park. **The City must receive wire instructions no later than 9 a.m. two days before funds are to be wired. Wire instructions received after 9 a.m. will not be executed until the next business day.**
- Original and certified copies of PAL and first mortgage/primary lender documents specified in the escrow instructions are to be delivered to the City of Menlo Park Housing Division.

### III. MAXIMUM HOUSEHOLD INCOME

Maximum gross annual household income for the PAL loan is limited to 120% of the San Mateo County median income adjusted for household size, as shown below.

Household Size	2010 Maximum Household Income
1	\$83,500
2	\$95,450
3	\$107,350
4	\$119,300
5	\$128,850
6	\$138,400
7	\$147,950
8	\$157,500