



City of Visalia

Housing Loan Policy

Fiscal Years 2025-2026 through 2029-2030





Introduction:

The City of Visalia Finance Department and Housing Division administers the City of Visalia Housing Loan Portfolio. The Housing Loan Portfolio is comprised of low-and moderate-income housing loans funded by Federal and/or State grants, including Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) funds through the U.S. Department of Housing and Urban Development (HUD), and Redevelopment Successor Housing Agency (SAH) funds by the City of Visalia. The purpose of the Housing Loan Policy is to provide the City of Visalia with a standard operating procedure for collection and maintenance to ensure compliance with applicable Federal, State, and City regulations.

The City is an equal opportunity organization and does not discriminate on the basis of race, color, religion, sex, national origin, handicap, or familial status.

Contact Information:

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Loan Maintenance

Loan Set-ups

New housing loans are set up for servicing by the City's Loan Service Provider (Loan Servicer). The City will include the requirement to process loan setups in any housing loan program contract. The Contractor(s) operating each individual City loan program will forward set up forms and necessary documentation to the Loan Servicer for loan maintenance. Income certification and affordable loan payments will be governed by this policy.

Loan Pay-off Quotes

City Housing Loan borrowers may request a payoff-quote by contacting their current Loan Servicer or the Finance Department, Housing Division at housing@visalia.city. Agents of the borrower (escrow companies, real estate agents, lending institutions, etc.) may also request a payoff quote on behalf of a borrower, by providing a release signed by the borrower. All payoff quotes must be approved by the City of Visalia. When contacted directly, the Housing staff will contact the Loan Servicer to obtain a pay-off quote for review and approval. The City Manager, and their designee(s) have the authority to approve pay-off quotes. A memo signed by the City Manager and designating approval authority is kept on file by the Housing Division. Approved pay-off quotes will be forwarded to the requesting entity within seven (7) calendar days of the request date.

Death of the Borrower(s)

Upon the death of all borrowers on a particular loan, payment to the City must continue to avoid foreclosure proceeding on the property. It is the responsibility of the executor of the estate, or a representative of the probate court to contact the Loan Servicer to discuss temporary payment arrangements. Heir(s) may choose to pay off any loan balance, or request assumption of the city loan.

Assumption of City loans on the property will be governed by the terms and conditions recorded in the documents for each individual loan. For more information, please refer to the Assumption of Loans section below.

Assumption of Loans

The ability to assume existing loans is governed by the funding source, original loan terms, and conditions recorded within each individual loan agreement. Borrowers or authorized representatives of a borrower's estate may request a review of the loan documents to determine the options available by contacting the Finance Department, Housing Division at housing@visalia.city. Eligible heir(s) that request an assumption of the City loan will be required to complete an income certification, which will determine eligibility for an assumption.



Income Certification

All City loan applicants must have household incomes at or below the eligible area median income (AMI) limit, adjusted for household size, as published by HUD each year in accordance with each funding source, loan terms, and recorded conditions. Household income will be verified by reviewing and documenting tax returns, copies of wage receipts, subsidy checks, bank statements and third-party verification of employment forms sent to employers. All documentation shall be dated within six months prior to loan closing date. All information submitted will be kept in the applicant file and held in strict confidence. The projected annual gross income of the applicant household will be used to determine whether they are above or below the published HUD income limits.

Subordination Requests

It is the intent of the City to provide continued affordability of units that have existing housing loans from the City of Visalia. The City has set forth the following policy for the subordination of the City's position as a second (or third) Deed of Trust holder.

Requests for subordination must meet all the following conditions:

- City loan is in good standing; and
- Borrower is refinancing the first mortgage to a lower interest rate; and
- No deferred balloon payment is included; and
- The borrower is not receiving any cash out; and
- The home will remain owner occupied; and
- Only the amount of the lien's superior to the City's position are being refinanced; and
- The total debt to equity ratio will not exceed 95% of the appraised property value.*

The City will evaluate and approve or deny the subordination within 21 days of receipt of a completed subordination request package.

**The following is a list of the documents required by the City for consideration of a subordination request:*

- Estimated Closing Statement
- Current Preliminary Title Report
- New Deed of Trust
- Current Property Appraisal

Upon approval of a requested subordination, the borrower will provide the City with the necessary documents and information for execution at the borrower's expense.

Short-Sale Request

The City will provide a request for short-sale form to a borrower seeking City approval of a short sale. This form must be completed, and all information requested on the form provided. All short sales will be considered on an individual basis.



If a short sale request is denied, the borrower will be notified of their option to appeal the decision to the Department Head. If a short sale request is approved, a reduced payoff demand will be prepared. When recapture provisions exist, short sale proceeds will be distributed in accordance with the original loan documents.

Foreclosure by other Lien Holders

If a foreclosure occurs on the first mortgage, the property may be sold at auction for the amount owing on the first mortgage, and the holders of any other deeds recorded on the property may lose their investment, depending upon the actual sale price. There are three possible options for the City to receive repayment of their loan amount then this occurs.

1. The borrower may attempt to sell the property before it is foreclosed upon. The City may received full or partial repayment of the City loan.
2. The City may choose to purchase the property at auction, using the Loan Purchase Program. The property would then be sold at fair market value, and the City loan would be recovered through the proceeds of sale.
3. If a property securing a City housing loan will be auctioned, the City may submit a claim for excess proceeds from the sale of the tax-defaulted property, also known as a "Proof of Claim" to the County of Tulare Treasurer-Tax Collector to claim any proceeds from the sale in excess of the first mortgage. It may take up to two (2) years for the City to receive any proceeds from the sale. By law, the County cannot begin processing claims until one year has passed from the date of the recordation of the deed to the purchaser (See page 7, Tax Auction Notice for additional information).

Loan Monitoring

Compliance Review

The City, as an entitlement community, receives Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) funds through the U.S. Department of Housing and Urban Development (HUD). CDBG funds are mandated to benefit low- and moderate-income persons, and HOME funds can only be used to provide housing for low- and moderate-income persons.

Each of the funding sources used by the City to provide housing loans comes with federal or state requirements attached. To ensure compliance with these requirements, the City requires borrowers to sign owner's participation agreements, and/or affordability agreements to participate in the City's housing loan programs. Each borrower receives a copy of all agreements at the time of signing. Any borrower needing a duplicate copy of agreements they have signed, may request them by contacting the City. The City performs the following compliance reviews.



- **Affidavits of owner** - Annually each borrower will receive an affidavit of owner in the mail. The borrower will be requested to sign this form, stating that they are following all conditions of their loan agreements. Borrowers who fail to return the affidavit of owner will be referred to the Code Enforcement program to receive an on-site inspection (see below).
- **Property Conditions** – Annually city staff will drive by each loan property, noting the property's general appearance and condition to ensure Housing Quality Standards are maintained. Any property that appears to be poorly maintained will be referred to the City's Code Enforcement and Building Inspection Department for an inspection. The City will follow up on any violations of Owner's Participation Agreements (OPA's), requiring correction of any material violations. Material violations which are not repaired within 90 days of the City's written notification will cause the City to declare the loan on that property in default, with payment due in full immediately. The Code Enforcement and Building and Safety department will follow up on any Code violations found in accordance with code enforcement procedures.
- **Review of loans for changes in title** - Each loan held by the City will be reviewed annually to ensure that title has not been transferred away from the signer of the City's note. Each loan appearing on the delinquency list will be reviewed monthly for changes in title. Transfer of title may be a violation of loans terms and may result in the City declaring the loan to be in default, with payment in full due immediately. Borrowers who have made changes in title in violation of the City's loan terms will be given a reasonable amount of time (not to exceed 90 days) to return Title to the signer of the City's loan.
- **Insurance** – The Loan Servicer shall monitor current homeownership insurance. The Loan Service Provider shall provide force place insurance if needed. The City is notified of the cancellation of insurance on any monitored loan property. If necessary, the Loan Servicer can maintain an impound account on any loan to ensure the timely payment of insurance premiums.
- **Property Taxes** - The holder of the 1st trust deed on the property monitors property taxes on homebuyer's assistance (HAP) loans. The City may request tax monitoring on an individual HAP loan if the need arises. The City is notified of any delinquent property tax on monitored loan properties. If necessary, the Loan Servicer will be requested to maintain an impound account on any loan to ensure the timely payment of property tax.
 - **Tax Auction Notice** – The City will annually monitor the County of Tulare Notice of Property Tax Delinquency and Impeding Tax Default Properties and Tax Auction Notice of Sale Publication to confirm if any City housing loans will be auctioned by the County of Tulare Treasurer-Tax Collector.
- **Income Re-certification** - As needed, the City is required to complete an income re-certification form to determine the continued income eligibility of borrowers who have received deferred loans. The income re-certification also establishes an affordable



payment amount, based upon the borrower's income. The Loan Servicer will review the following information for any deferred loan, which requires an income re-certification.

- Current household income
- Current mortgage payments
- Current monthly utilities (Electric, Gas, Water, and Sewer)
- Payment on fixed debts (Cars, medical bills etc.)
- The income re-certification process will determine the ability of a borrower to make a monthly payment on their loan. Income re-certification will be included in the evaluation of delinquent accounts. Income re-certification is also used to determine eligibility for Hardship Deferrals.

Collection and Remittance of Payments: The Loan Service Provider shall collect payments from borrowers through monthly or other scheduled remittance of principal, interest, fees, escrow balances and/or other identified payments. Payments will be applied to taxes and insurance first, then the remainder to the monthly payment. These remittances will be posted to the loan and ancillary records in accordance with the loan documents and the City's written instructions. All funds will be maintained in a bank/custodial type account for the benefit of the City. Loan servicer shall ensure the proper balancing of cash received and transmitted and loan portfolio totals on a daily and monthly basis.

Delinquencies

Accounts 0-90 days delinquent

New Delinquent Borrower - The Loan Servicer will send a reminder notice to new delinquent borrowers at 5 days past their payment due date. If there is no response, a delinquency letter is sent at 15 days. If no response is received to either letter, due diligence phone calls begin at 31 days delinquent.

Delinquency/Default Letters - Delinquency letters will be sent to the borrower, by the Loan Servicer at 15, 30, 45 and 90-days past the payment due date. The letters will emphasize the seriousness of the situation, the potential for loss of the borrower's property, and demands for immediate payment. The goal is to prevent poor payment habits.

Due Diligence Phone Calls - Phone calls will be used to impress upon the borrower the serious nature of the situation and to gain a commitment for repayment. Three due diligence phone calls will be made to the borrower, by Loan Servicer, before a recommendation to foreclose is issued. (The advantages of telephone contact are, it demands attention, interrupts other activity, establishes a personal communication, and requires immediate response.)

Confirmation Letters - Once a payment commitment is gained, the Loan Servicer will send a confirmation letter to the borrower documenting both the phone call and the commitment. A revised payment plan of no greater than 6 month's duration may be implemented, by the Loan



Servicer, without City approval. Default from this plan will cause the Loan Servicer to recommend foreclosure. (Contact with borrowers is used to solicit comments to repay past due amounts. The confirmation letter puts that commitment in writing.)

The City will not provide new loan assistance to any Rental Rehabilitation borrower who has been more than 1 payment delinquent, on an existing City loan, within the five-year (60 month) period prior to their loan application. The City will not provide new loan assistance to any other borrower who has been more than 1 payment delinquent, on any existing City loan, within a one-year (12 month) period prior to their loan application. Any borrower whose loan has been foreclosed upon, or administratively deferred will no longer be eligible for assistance through any City Housing program.

Remedies Available

Immediate Payment_- The borrower will always have the option of paying the delinquent payments and late fees, on their account, in full, to bring their account current.

Hardship Forbearance- Forbearance is available in 6-month increments, with no more than a total of 12 months forbearance available during the life of each loan. A hardship is defined as a situation or set of events or circumstance beyond the normal control of the borrower, which prohibits the borrower from adhering to the planned repayment schedule. If a borrower states, in writing, that a *short-term (less than 12 months)* hardship situation exists, the Loan Servicer will develop, in coordination with the borrower, a fully documented file. The following documentation will be provided to the City for their final approval of a recommended forbearance plan:

- Hardship forbearance request
- Nature of hardship
- Expected duration of hardship
- Evidence to validate hardship
- Forbearance plan proposal

If the Agency approves the Hardship Forbearance Request and executes the agreement with the borrower, the Loan Servicer will resume loan servicing under the new payment plan. The Finance Director is authorized to approve and execute a Forbearance Plan Agreement.

Hardship Deferral- If a borrower states in writing, that a long-term (more than 12 months) hardship situation exists, the Loan Servicer will perform an income recertification and evaluation to determine eligibility for loan deferral. A hardship is defined as a situation or set of events or circumstances beyond the normal control of the borrower, which prohibits the borrower from adhering to the planned repayment schedule. The following documentation will be required:

- Deferral Request Form
- Income Recertification
- Current Credit Report



If the borrower is eligible for deferral, their loan will be deferred for a period of 5 years, after which, amortized payments will resume. If the borrower is not eligible, the loan will be referred to the Loan Servicer to be considered for foreclosure. The Loan Servicer will provide a recommendation for deferral based upon the borrower(s) income recertification and evaluation. The City's Finance Director will approve or disapprove the request for deferral.

When a loan is scheduled to resume amortized payments; the borrower will be notified by mail, 90 days before payments are to begin, to contact the Loan Servicer if they are unable to resume payments at that time. The borrower will be required to repeat the deferral request process to determine eligibility for an additional 5-year deferral.

Delinquencies 90+ days

Recommendation to Foreclose: The decision to foreclose is based on an analysis of the individual loan, the borrower's basic motivation and ability to pay, and their level of cooperation. If the borrower has been uncooperative, non-responsive, or unwilling to cure the existing default by all reasonable means, the Loan Servicer will recommend foreclosure. This step is taken when a loan becomes 90 to 120 days delinquent. The borrower will receive a final letter sent by certified mail. If no response is received within 10 days, the Loan Servicer will issue a formal recommendation to foreclose and will document the steps taken to effect a cure. Borrowers, who are cooperative and appear genuinely unable to pay, may be referred to the City with a recommendation to consider deferral of the loan. The Loan Committee, made-up of the Assistant Finance Director, the Housing Specialist, and one additional Financial Analyst, will review the Documentation and make a recommendation to the Finance Director. The Finance Director is authorized to review and approve deferral of Agency loans. Recommendations to foreclose must be approved by the City Manager. Information to be considered when reviewing a loan for possible deferral/foreclosure will include:

- Information compiled by the Loan Servicer
- Income re-certification
- Terms of original note, deed, and owner's participation agreement
- Cooperation of the borrower
- Borrower's ability to make an affordable payment
- The City's position on the Title of the property

The loan committee will make a recommendation to pursue one of the following actions:

- Defer the entire balance of the loan for a period between 5 and 30 years. Under this option, the borrower(s) would have the opportunity to request another income re-certification at the end of the deferral period if they remain unable to begin repayment.
- Defer a portion of the loan for a period between 5 and 30 years, to reduce the monthly payment. For example, a \$20,000 loan could be "split" into a \$10,000 deferred loan and a \$10,000 amortized loan. The smaller affordable payment on the amortized portion would



allow the borrower to continue building equity in their property. Under this option, the borrower(s) would have the opportunity to request another income re-certification at the end of the deferral period if they remain unable to begin repayment of the deferred portion of their loan.

- Proceed with foreclosure. This option would be recommended for borrowers who are determined to be able, but unwilling, to pay.
- Administrative Deferral. This option would be recommended when the borrower is uncooperative, and the City has no reasonable expectation of receiving repayment of the loan through the process of foreclosure proceedings. The subject loan would be deferred for a period to be determined by the loan committee. At the end of the Administrative Deferral period, the City would, once again, review the loan for possible foreclosure proceedings. The length of an Administrative Deferral will be determined based upon the recommendations of the loan committee and must be approved by the Department Head.

Any borrower whose loan has been foreclosed upon, or administratively deferred will no longer be eligible for assistance through any City Housing program.

Loans currently 90+ days delinquent

The Loan Servicer will separate out all loans, which are three or more payments delinquent. A notice of default status and a request for contact will be sent by letter. If no response is received in two weeks, the Loan Servicer will send a second letter requesting that the borrower contact their office. If after one week no response is made to the second letter, the Loan Servicer will attempt a phone call. If a commitment for repayment within six months is gained, the Loan Servicer will document the commitment with a confirmation and resume servicing.

If the borrower has been uncooperative, non-responsive, or unwilling to cure the existing default by all reasonable means, the Loan Servicer will refer the loan to the City for review by the loan committee, and possible foreclosure.