



City of Atascadero

Local Road Loan Program

PROGRAM OVERVIEW

At the June 14, 2005 council meeting, the City Council approved the Local Road Loan Program, a program that provides an alternative to assessments for neighborhoods that wish to improve their local roads. The program is simple. It allows residents to come together on their own as a neighborhood to decide how best to improve their street. Once the neighbors have agreed on the improvements and a construction timeline, those financially supporting the improvements can apply for a ten-year, city-backed loan through Santa Lucia Bank. The program is privately administered by Santa Lucia Bank with loans being made available to all residents regardless of financial condition or credit.

THE LOANS

The loans proposed under this program are subordinate to first trust deeds, second trust deeds, and home equity lines of credit. Loans are also available to residents that might not otherwise qualify for a traditional bank loan. This can be accomplished because the City secures the loans by depositing an amount equal to the total loan being requested by property owners for street improvements. These funds serve as collateral against the residential loans, therefore guaranteeing access and a lower interest rate on the note. The City's deposit is in the form of a negotiated certificate of deposit (CD) and is part of the City's investment portfolio. The annual yield of the CD will be based on the prevailing rate for a 10-year CD at the time the loans are funded.

The interest rate charged to the homeowners for their loan is tied to the CD rate. The rate will be 50 basis points (0.50%) higher than the CD's yield. This spread goes to the bank to cover some of the program's cost. For example, if the City is receiving a yield of 5.0% on their CD, the residential loan rate would be 5.50%. Loans will be issued for a ten-year term and rates are fixed. Should a homeowner default on their loan, the City will surrender a portion of the collateral equal to the resident's unpaid balance. The bank will then transfer the recorded deed of trust to the City for the remaining balance. The City will collect this amount when the house is sold or they could choose to foreclose or place a lien on the property.

THE PROCESS

The following steps illustrate how the program works:

1. Neighbors meet to discuss the conditions of their local road and determine if there is interest in fixing/rehabilitating the street. A neighborhood spokesperson/coordinator is selected.
2. City staff hosts a neighborhood meeting to discuss the repairs needed, review the process, and provide an initial timeline and cost estimates.
3. After the meeting is finished, neighbors need to determine if they would like to move forward. A majority of residents living along the street being considered for improvement must sign a petition consenting to having the improvements being done.
4. If the community votes to move forward with street improvements, the next step is to determine how many of the neighbors will financially support the project. Because this is not an assessment, residents cannot be forced to pay for the project. If it is determined that there are enough homeowners committed to financially supporting the project, the project will move forward. If there is support, neighbors may approach the bank and begin processing a standard loan application.
5. Those financially supporting the project work together to hire an engineer to work with City staff to design the street improvements. Once designs are completed, they are submitted to the City for review. Because improvements are being made to the public right-of-way, the City will waive all related development fees. The engineer should also provide cost estimates to the residents.
6. If the plans are acceptable to the City Engineer, he will approve the plans. The contractor working with the neighborhood will now be eligible to receive an encroachment permit. At this point the local bank will begin the funding process.
7. A resident may choose to financially participate outside of the loan program by depositing their whole contribution directly with the bank. These funds will be held in an escrow account for the project.
8. Residents will be notified if they are approved for a loan. If a resident does not meet the bank's standards, the bank will notify the City and the City may still approve the loan.
9. Once financing has been arranged, the contractor will be notified by the neighbors, they will pick up their encroachment permit and work can begin.
10. The City will inspect the project throughout construction. The project must be completed to the pre-arranged standards before payment will be provided.
11. The City will provide the bank with a notice of project completion. Once the notice is received, the bank will disburse payment to the contractor.
12. Residents will then make payments on the note for a period of ten years. The loan will be fixed.
13. If a loan defaults, the City will inherit the recorded deed of trust and will collect on the note when the property sells or the City could choose to foreclose against the assigned promissory note and deed of trust.



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Neighborhood Petition

PURPOSE:

The purpose of the Local Road Loan Program is to empower neighborhoods to come together to fix their neighborhood roads using private contractors and private resources. Specifically, neighbors can decide on the specific improvements they'd like to see, hire their own contractor, and then receive a city-backed loan from Santa Lucia Bank to finance the improvements.

Road(s) to be Improved (provide description of road and the section of road being worked on, i.e. Traffic Way from El Camino Real to Palma, include addresses if needed):

Estimated Dates of Construction: _____

Number of Property Owners within Construction Area: _____

Petition Circulated by: _____ Phone: _____

PETITION:

By signing this petition, I am giving my consent to rehabilitating the road that provides access to my home. I understand that the work may result in a temporary, unpaved road for a period of time and that there may be some inconveniences during the construction period. The end result will be a fully paved road. A majority of residents within the designated area must approve of the work before it can be completed.

Printed Name:

Signature:

Address:

Phone:



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Financial Calculation Sheet

This sheet may be used to assist neighbors in determining project costs.

- 1. Neighborhood: _____
- 2. Proposed Cost of Project : _____
- 3. Number of Residences Participating: _____

DETERMINATION OF COST PER RESIDENCE

Divide the total amount listed in item two by the number of homes indicated in item three.

Cost per residence: \$ _____

ESTIMATES OF POTENTIAL LOAN PAYMENT

Assuming an interest rate of 5.5%, fixed, for ten-years the following chart estimates potential loan payments. Payments will be made monthly.

<u>Loan Amount</u>	<u>Monthly Payment</u>	<u>Total Cost</u>
\$ 2,500.00	\$ 27.13	\$ 3,215.19
\$ 5,000.00	\$ 54.25	\$ 6,510.39
\$ 7,500.00	\$ 81.38	\$ 9,765.58
\$10,000.00	\$108.51	\$13,020.78
\$12,500.00	\$135.63	\$16,275.97
\$15,000.00	\$162.76	\$19,531.16
\$17,500.00	\$189.89	\$22,746.35
\$20,000.00	\$217.02	\$26,041.56