

CITY AND COUNTY OF SAN FRANCISCO

MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT



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DOWNPAYMENT ASSISTANCE LOAN PROGRAM (DALP)

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San Francisco Downpayment Assistance Loan Program

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**CITY AND COUNTY OF SAN FRANCISCO
MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT
DOWNPAYMENT ASSISTANCE LOAN PROGRAM (DALP)**

I. INTRODUCTION TO DOWNPAYMENT ASSISTANCE LOAN PROGRAM

A. PROGRAM SUMMARY

The Mayor's Office of Housing and Community Development (MOHCD) administers the Downpayment Assistance Loan Program (DALP). This manual describes the program guidelines and processing procedures for the DALP. It also establishes the roles and responsibility of the City and County of San Francisco, MOHCD, the first mortgage lenders and homeownership counseling agencies. Finally, it describes the qualifications and requirements of prospective first-time homebuyer. The Mayor's Office of Housing and Community Development shall review and update these guidelines annually to reflect changes in the market and better meet the community's needs.

B. DEFINITIONS

1. **Appreciation:** An amount representing the increased value of a property determined by comparing the fair market value (FMV), or sale price of a property from the time of the original purchase to the new FMV or sale price at the time of resale.
2. **Back-end ratio:** The ratio between monthly household income and monthly housing costs plus all payments on installment debts.
3. **Bedroom:** A habitable room with legal ceiling heights, a closet, window and door with direct connection with the living space of the property. Bonus room and finished room will be considered as bedroom, if the room has the above requirements. The size of a household must be compatible with the size of the unit being purchased. A minimum of one person per bedroom is required.
4. **Borrower:** For purposes of determining the household income, the income of all persons 18 years and older who will reside in the property will be considered as part of the total income used to determine eligibility within the established limits.
5. **Below Market Rate Housing Units (BMR)** are properties administered by MOHCD, priced to be affordable to program and income eligible first-time homebuyers. The BMRs are subject to occupancy and resale restrictions. BMR buyers with combined household income and assets at 81% of the Area Median Income (AMI) up-to 120%, under the BMR income and asset test can qualify for DALP. All other BMR and DALP program requirements shall apply.
6. **Director:** Director of the Mayor's Office of Housing and Community Development, or other official designated by the Mayor of the City and County of San Francisco.
7. **Dependents:** The household members who reside in the property and who are listed as dependents in the Borrowers' Federal Income Tax returns.
8. **Eligible Household:** To be considered a member of a household, a person must either be (1) on the title and the loan documents for the unit or (2) claimed as a dependent on the tax return of a household member who will appear on the title and loan for the property. A household is defined in terms of financial relationships and can include any owner partnerships as long as their combined gross, annual income meets the eligibility guidelines. All household members must be first time homebuyer.
9. **Fair Market Value:** The value of a property based upon the determination of an authorized appraisal report mutually acceptable to both the City and the Borrower.
10. **First-time homebuyer:** The Borrower or co-borrower receiving a loan from the City who have not owned any interest in a dwelling unit, any commercial real estate, or any land for the past three years.

11. **Front-end Ratio:** The ratio between monthly household income and monthly housing cost, including first mortgage principal, interest, taxes, insurance and homeowner association due (HOA).
12. **Gross income:** The anticipated income of a borrower or household member for the twelve-month period following the date of determination of income.
13. **Home:** Any residential property in which the Borrower or any of the Borrower's household has ever owned as their Principal Residence.
14. **Household Size Compatibility:** The size of a household must be compatible with the size of the unit being purchased. A minimum of one person per bedroom is required. In other words, a single person may purchase a studio or a one-bedroom unit; a two-person household may purchase a two-bedroom unit or a smaller unit if they choose; a three-person household may purchase a three-bedroom unit; and so on.
15. **Household Income:** All sources of income from which the Borrower(s), and any other person 18 years of age or older who is expected to live in the residence receive. This includes: monthly gross pay; any additional income from overtime or part-time employment; bonuses, commissions, tips; dividends, interest, royalties, pensions; Veteran's Administration (VA) compensation; net rental income; alimony, child support; public assistance, disability, unemployment, and social security benefits; income received from trusts; and income received from business activities or investments; monthly income from pension and retirement and accounts.
16. **In-Law Units:** An area within the property that is autonomous from the principal residential area and has been constructed or converted to accommodate a living space for a separate household complete with kitchen and bath.
17. **Loan-to-value-ratio:** The ratio between the amount of all indebtedness likened or to be a lien against a property to the appraised value of the property securing the liens.
18. **Live-work Units:** Those units designated by ordinance and zoning to qualify as legal living space within a commercially or industrially zoned building. The Live/Work unit definition does not require the property to be used specifically as commercial or dwelling. The real estate industry term "loft" only refers to the structural style. The property must also meet the criteria of ordinance and zoning parameters in order to be considered "Live/Work".
19. **Liquid Assets:** Liquid assets include all sources of monies from savings, checking accounts or investments held by any occupant of the Borrower's household including minors. Liquid Assets are any funds which are available to liquidate. Liquid Assets will not include funds held in a pension account, retirement fund, 401k or 401b plan, or similar asset.
20. **Mayor's Office of Housing and Community Development ("MOHCD"):** The office designated by the Mayor to administer the program guidelines and perform required oversight and compliance monitoring of the Regulations established by the Affordable Housing and Home Ownership Program ("Program").
21. **Maximum Income:** DALP is available to First Time Homebuyer households whose combined annual income of all members at the age of 18 and older do not exceed 120% of the median income for the San Francisco Metropolitan Statistical Bay Area as defined by HUD (Area Median Income (AMI)) and adjusted for household size. The amounts are adjusted on an annual basis.
22. **Monitoring:** Activities of the Mayor's Office of Housing and Community Development, which will ensure compliance with the requirement of owner occupancy. Borrowers are required to submit certain documentation on a regular basis to MOHCD to substantiate their continuing compliance with the Program requirements.
23. **Participating Lender:** Lending institutions in good standing that have demonstrated their ability to provide loan origination, funding, services and perform other duties within applicable laws and the Regulations and have agreed to participation with the DALP program in writing

24. **Primary Financing:** The first mortgage made by a Participating Lender for the purchase of a Principle Residence.
25. **Principal Residence:** (1) A Single-Family Residence, (2) Condominium or (3) Townhouse. It does not include limited cooperatives (such as timeshares), recreational vehicles, campers, or similar vehicles. The Borrower must occupy the Principal Residence at least 10 months out of every calendar year for the entire term of the loan.
26. **Purchase Price:** The cost of acquiring a residence, excluding usual and reasonable settlement or financing costs, and excluding the value of services performed by Borrower in completing the acquisition of the residence.
27. **Regulations:** The Regulations for Program as adopted by The Board of Supervisors of the City and County of San Francisco and as amended from time to time.
28. **Rental Units:** Any dwelling unit in which the Borrower / applicant maintains an ownership interest and is used, or can potentially be used, as an investment from which they derive rental income from tenants.
29. **SFMSA:** San Francisco Metropolitan Statistical Area.
30. **Single Family Residence:** A single-family one-unit residence.
31. **Total Transaction Costs:** The cost of the purchase of a home, including the sales price, closing costs and transactional fees.

C. ELIGIBLE USE OF FUNDS

1. Downpayment Assistance Loans will be made from available funding sources for the purpose of providing assistance to eligible low and moderate income First Time Homebuyers who would otherwise not be able to purchase a home in San Francisco.
2. DALP funds are limited to making loans available to households earning no more than 120% of the area median income.
3. DALP funds may be applied towards closing costs as long as the buyer has met the minimum required down payment contribution.
4. DALP funds must be used towards the purchase of a qualified housing unit, with no more than \$250 cash back to borrower.

II. PROGRAM REQUIREMENTS

A. BORROWER ELIGIBILITY REQUIREMENTS – In order to apply for a DALP loan, Borrower must meet the DALP requirements set forth below:

- 1) **First Time Home Buyer Requirements:** All members of the household must **have not** owned interest in a dwelling unit, any commercial real estate, or any land for the past three years. A borrower should be deemed to have owned an interest in a housing unit regardless of whether or not that interest results in a financial gain, is in another state or county, or if the borrower has ever used the property as a primary residence.

Evidence of compliance with this requirement includes the *First Time Homebuyer Affidavit (DALP-4)* (“FTH Affidavit”)

- 2) **Income and Asset Requirements:**

- a. **Maximum Income Limits-** Borrower’s gross annual household income cannot exceed 120% of the median for the SFMSA as published by the U.S. Department of Housing and Urban Development (HUD), adjusted for household size.

As of January 1, 2014 the income limits as follows:

Persons per household	One	Two	Three	Four	Five
80% AMI	\$54,350	\$62,150	\$69,900	\$77,700	\$83,900
90% AMI	\$61,150	\$69,950	\$78,650	\$87,400	\$94,350
100% AMI	\$67,950	\$77,700	\$87,400	\$97,100	\$104,850
110% AMI	\$74,750	\$85,450	\$96,150	\$106,800	\$115,350
120% AMI	\$81,550	\$93,250	\$104,900	\$116,500	\$125,800

- b. Income Determination:** The Gross Income of a Borrower (or Borrowers) (as defined by Revenue Ruling 86-124) promulgated by the Internal Revenue Service is the Borrower's annualized gross income. Use one of the appropriate formulas for full time employment (40 hours) or employment with consistent regular hours or income to arrive at the Borrower's base pay.

The calculation of income based on the gross income on each borrower's past three pay stubs. Each household member's income is derived by dividing the year-to-date gross income by the person's current pay period and then by annualizing an estimated pay period amount by the number of times the person is paid in one year.

YTD gross income/current pay period x number of paid a year = Annualized gross income

Example:

Year-to-date income is \$20,000 as of the 10th pay period of the year

Estimated pay period amount = \$20,000 divided by 10 = \$2,000

Total number of pay periods in year for borrower is 24

Annualized pay = \$2,000 x 24 = \$48,000

Calculations such as part-time employment with variable hours (or less than 40 hours per week), inconsistent income or hours, overtime, bonuses and commissions, etc., can be calculated using year-to-date income to project the annual income.

A self-employed Borrower can also be considered to have income which varies from month to month. The borrower's gross annual income calculations will be based on the net income before taxes from the Borrower's signed, quarterly Profit and Loss Statement. This amount will be divided by the appropriate number of months covered by the Profit and Loss Statement to derive a monthly income amount. The monthly income amount will be multiplied by 12 to derive the annual income.

Self-employed Borrower must provide:

- Self-employed Affidavit.
- All Profit and Loss statements from the past 3 years
- An estimated Profit and Loss statement for the current year
- Copies of all invoices and payments made to the borrower as a part of self-employment in the current calendar year.

Example:

Year-to-date net income is \$32,000 for 5 months on the P/L Statement

Estimated Income amount = \$32,000 divided by 5 = \$6,400

Total number of the year is 12 months

Annualized Income = \$6,400 x 12 = \$76,800

Borrower or Co-Borrower not employed or not receiving any income must provide:

- *Unemployment Affidavit* that is signed, dated and notarized.

- The Unemployment Affidavit must be used in the event that the borrower is not able to provide the Mayor's Office of Housing and Community Development with paystubs or other documentation of regular income.
- Other third party documentation as requested by MOHCD to verify no income source.

Interest earnings are computed on the net principal of the liquid assets at the current market rate after reduction of downpayment and closing cost requirements as applicable.

Information with respect to gross monthly income may be obtained from available loan documents executed during the four-month period ending on the date of the closing of the mortgage, provided that any gross monthly income not included on the loan documents must be included in determining gross monthly income. The income to be taken into account in determining gross income is income of the Borrower (or Borrowers) and any other person over 18 years of age who is expected live in the residence being financed. If the co-Borrower, co-signer or co-habitant meets both requirements in the sentence above, include his/her income in your gross income calculations.

Verification of Employment and other supporting documentation regarding income such as pay stubs should be no more than 60 days old at the time of submission of the DALP loan application.

c. Liquid Assets includes: All source of monies from savings, checking accounts, gift funds, cash received from settlement or inheritance, investments and properties held by any member of the Borrower's household including minors and any fund is available for liquidation to purchase property. Liquid Assets do not include funds held in pension accounts, retirement funds, 401(k) plans, or similar assets which are not available for liquidation without financial penalty to the Borrower. Personal property such as household furnishings, tools of trade or employment, or automobiles are NOT considered liquid assets. Evidence that liquid assets have been transferred to another individual or into an unavailable asset account to avoid use in the purchase will result in disapproval of the Borrower's application.

Liquid Asset Restrictions: Prior to purchase, a borrower household may hold no more than \$200,000 in liquid assets. This includes all sources of liquid assets and gift funds. After purchase, the maximum liquid assets held by a household must not exceed \$60,000.

3) Eligible Household Member

Household Size Determination and Requirements - An eligible household member must either be:

1) On title and loan of the property. All spouses or domestic partners must be included in the household and must appear on the application, title and loan for the DALP loan.

2) As a dependent on the tax returns - All household members who are under 18 years of age must be the legal dependent of an adult household member. An unborn child will be counted as a household member with verifiable medical documentation. Elderly adult household members may be considered as dependent as long as they are listed as a dependent on the most recent tax return. All income from dependent adults and children must be included in the total household income. Spouses and Domestic Partners are not considered dependents.

Household Size Compatibility

The size of a household must be compatible with the size of the unit being purchased. A minimum of one person per bedroom is required. In other words, a single person may purchase a studio or a one-bedroom unit; a two-person household may purchase a two-bedroom unit or a smaller unit if they choose; a three-person household may purchase a three-bedroom unit; and so on. There is no restriction on purchasing a unit that has fewer bedrooms than the household size.

Title and Loan Requirements

All adult Household members must appear as an owner or co-owner on the property title and must co-sign for any purchase loan for the property with the following exceptions:

- (1) Legal dependents of titleholders as claimed on the most recent federal income tax return or legal minor children of titleholders. Spouses or Domestic Partners are not considered dependents;

- (2) Household members younger than age 24 who are the child of a titleholder who will reside in the housing unit as their primary residence, regardless of being named as a dependent on the federal tax form of a titleholder; and,
- (3) Recent immigrants with insufficient credit history as defined as a person who has been in the United States for 2 years or less as supported by entrance documentation or a sworn statement and lender documentation of the reason for loan denial, including a copy of the borrower's credit report.
- 4) **Title Transfer Restriction:** Changes in the title are not permitted. However, with prior written approval from MOHCD, deletion of a Borrower or co-Borrower from title may be allowed in cases of death, divorce or other a pre-approved circumstances.
- 5) **Minimum Downpayment Requirement:** The borrower must contribute minimum of five percent (5%) of the purchase price toward the downpayment of the property. Of the total 5%, 3% must come from the Borrower's own funds from a verifiable source (held in a financial institution) and 2% can be grant or gift funds (not DALP funds). Borrower must have sufficient funds to meet the required down payment plus necessary reserve funds as well as sufficient income to meet the monthly mortgage payments, property tax, homeowner insurance and homeowner association dues. Borrower is limited to a total down payment of 50% towards the purchase including any loan from the City. The borrowers 5% contribution shall be applied as downpayment and not as closing costs.

Post Purchase Reserve Funds: Borrower must have at least three months' worth of mortgage payments in reserve after purchase the home. This provides assurance that the mortgage can be paid even if the borrower is experiencing cash flow problems.

- 6) **Homebuyer Education Requirements:** All adult household members on title must complete the first-time homebuyer education course through one of MOHCD's 5 approved housing counseling agencies. A certificate of completion of homebuyer education must be included with the application package. For a schedule of the homebuyer course, borrower may call or visit the housing counseling agencies website: www.sfmohcd.org or post on www.homeownershipsf.org. Certifications must have been issued within the last 12 months from the date of the application submission for regular DALP.
- 7) **Owner-Occupancy Requirement:** All household members must occupy the purchased property as their Principal Residence within 60 days after the close of escrow. Thereafter, all household members must reside in the property as their principal residence a minimum of 10 out of 12 calendar months for the term of the loan or until the property is sold. Compliance monitoring will be performed and documented proof of occupancy required at intervals determined by MOHCD.
- 8) **Non-Discrimination and Privacy Requirements:** All borrower eligibility requirements contained in this manual must be applied without regard to the race, creed, color, gender, religion or national origin of the borrower. Lenders shall be sensitive to the privacy interests of the borrowers, and should use the information received only for purposes of verifying the borrowers' eligibility for a downpayment assistance loan.
- 9) **Conflict of Interest:** The purpose of the homeownership loans and housing programs administered by MOHCD is to assist low-income and moderate-income households reach the goal of homeownership and increase housing opportunities in San Francisco. MOHCD employees are eligible to participate in these programs with the exception of those employees who directly implement or approve homeownership loans or assistance, including: the Director, Director of Homeownership & BMR Programs, Chief Financial Officer, and other program and fiscal managers and staff who qualify, review, approve or disburse MOHCD's homeownership and housing program loans. This policy also applies to immediate family members of said staff including spouse and children.

B. PROPERTY ELIGIBILITY REQUIREMENTS

- 1) **Property Requirements** - All properties purchased with downpayment assistance loan funds must be single-family residences located in the City and County of San Francisco. The residences may be a single-family house, Condominium, Town Home, Loft or Live Work Unit (as long as the property will be used as the owner's principal residence).

DALP Borrower cannot purchase a residential unit in which a No Fault Eviction occurred during the preceding 10 years from the date of Borrower's DALP application. For purposes of the preceding sentence, a No Fault Eviction shall mean an eviction under San Francisco Administrative Code section 37.9(a)(8) through (13) and (15).

- 2) **Property Size Requirements** - Property size must be compatible with the size of the household. Properties containing Rental Units and In-Law units in addition to the unit to be purchased are not eligible for a DALP loan.
- 3) **Property Flipping** – DALP cannot be used to purchase properties resold within 90 days and with more than 20% profit to the seller.
- 4) **Inspection Report Requirement for DALP** - All properties purchased with DALP must be inspected by a certified, independent third party home inspector with an estimated repair amount. The inspection report must be acceptable to the borrower and submitted to MOHCD along with the DALP application. All reported deficiencies that pose immediate health and safety hazard or code violation must be corrected as a condition prior to any funding of a DALP Loan. The City of San Francisco will not be held liable for any misrepresentation, false claims or information contained in the inspection report.

The City of San Francisco maintains the right to deny the loan, due to the condition of the property. If the first mortgage lender is requiring repairs to the property, you must include a copy of the clearance report prior to close of escrow. All units must be complete with respect to health and safety construction or repairs and ready to occupy. Escrow holdbacks for constructions and repairs are not allowed.

Violations or corrections may be referred to the Mayor's Office of Housing and Community Development's Lead and Rehabilitation Department for evaluation and program qualification - please visit MOHCD's rehabilitation website for program requirements – www.sfmohcd.org

For newly constructed properties (single family and condominium units) an inspection report is recommended but not required.

All borrowers must submit a signed and notarized **General Release and Waiver of Liability** form along with the DALP application.

- 5) **Appraisal Report** – MOHCD Requires a fair market appraisal as part of the lending and closing process. A copy of the appraisal report must be attached to the DALP application. The appraisal report should be no more than 90 days old at the time of submission of the DALP loan application.

III. **FINANCING REQUIREMENTS**

- 1) **Primary Financing:** Borrowers who apply for a downpayment assistance loan must be able to qualify for a first mortgage from a Participating Lender prior to submitting an application for a downpayment assistance loan. Borrowers must have sufficient funds to meet the required down payment, and necessary reserves as well as sufficient income to meet the escrowed monthly mortgage payments. Unless pre-approved by MOHCD, the DALP loan must be in second position behind the first mortgage.

The primary lender must collect and manage impound accounts for payment of property tax and hazard insurance for the term of the primary loan.

First Mortgage Requirements: The first mortgage loan must be a fixed rate mortgage, the mortgage payment must be fully amortizing. Loan Type not allowed: reverse mortgage, stated income, ARM – adjustable rate mortgage, interest-only, negative amortizing, and balloon payments.

Co-Signing – Co-signing for a DALP loan by a non-household member is not allowed.

Seller/Realtor/Lender Credits –Credit funds are allowed for non-recurring loan closing costs. All credits must be used in escrow, no more than \$250.00 cash back to borrowers at close of escrow. The amount of non-recurring closing costs cannot exceed 3% of the sale price.

- 2) **Maximum DALP Loan Amount** is up to \$200,000. Qualifying loan amounts are based upon a graduated scale depending on income levels, adjusted by household size, not to exceed 120% median income and debt to income ratio. The maximum loan available per household depends on the household's income in relationship to the Area Median Income (AMI).

Household Income	100% AMI and under	101%-120% AMI
Loan Limits	Up to \$200,000	Up to \$140,000

- 3) **DALP With a BMR Purchase** – A homebuyer purchasing a Below Market Rate unit with income limits above 80% AMI and below 120% AMI may apply for DALP. The maximum loan available to a homebuyer using the DALP to purchase a BMR unit shall be \$57,000 or the maximum loan amount allowed in the BMR DALP program.
- 4) **DALP Loan Reservation** – DALP as specified in the commitment letter issued to a borrower will be placed on reserve for a period of no more than 45 days from date of the commitment.
- 5) **DALP Loan Term**- The term of the DALP is 40 years. The DALP is a no interest, no monthly payment, and deferred loan due upon sale, rent, or title transfer of the property.
- 6) **Maximum Combined Loan-To-Value Requirement (CLTV)** The maximum CLTV cannot exceed 95% of the purchase price, which includes the first mortgage, DALP and any other borrowed subordinate financing. The minimum CLTV cannot be less than 50% of the purchase price.
- 7) **Debt to Income Ratio:** Borrowers monthly housing debt, including property taxes, property insurance, and if applicable mortgage insurance and homeowner's association dues cannot be less than 28% (front-end-ratio) of the household's gross income. The front end ratio shall not be more than 40%. The ratio of monthly housing costs, plus all other household monthly debt (including credit cards, car payments, etc.) cannot exceed 43% (back-end-ratio) of the household's gross income.

Some Borrowers may qualify for first-mortgage financing at higher ratios than those cited above. Recognizing that the financial circumstances of each borrower are unique and that there may be other factors besides debt-to-income ratios that reflect the borrower's ability and willingness to repay mortgage loans, the MOHCD may consider higher ratios if two or more of the following indicators are present:

- a) Proven ability to devote a larger amount of income to housing expenses. The borrower has successfully demonstrated an ability to make mortgage or lease payments for twelve consecutive months that are equal to or greater than the proposed monthly payments for the housing being purchased;
- b) Substantial net worth as demonstrated through non-liquid assets and retirement accounts;
- c) FICO credit score greater than 700;
- d) Demonstrated potential for increasing his/her earnings;
- e) Housing expense will not increase more than five percent over previous housing payments.

Lenders and Borrowers seeking MOHCD approval of higher debt ratios should submit a written request and a letter of explanation to MOHCD as part of the borrower's loan application. The decision to approve or deny higher ratios will be made in accordance with the above stated compensating factors; however, the maximum back end ratio may not exceed 43%.

8) Reserves: After their purchase, Borrowers using DALP must have a minimum of three months total monthly housing expenses in a reserve account. Some Borrowers may qualify for first-mortgage financing with fewer than three months reserves. Recognizing that the financial circumstances of each borrower are unique and that there may be other factors besides 3 months reserves that reflect the borrower’s ability and willingness to repay mortgage loans, the MOHCD may consider 2 months reserves if two or more of the following indicators are present:

- a) Proven ability to devote a larger amount of income to housing expenses. The borrower has successfully demonstrated an ability to make mortgage or lease payments for twelve consecutive months that are equal to or greater than the proposed monthly payments for the housing being purchased;
- b) Substantial net worth as demonstrated through non-liquid assets and retirement accounts;
- c) FICO credit score greater than 700;
- d) Demonstrated potential for increasing his/her earnings;
- e) Housing expense will not increase more than five percent over previous housing payments.

9) Repayment: Unless a default occurs, the Downpayment Assistance Loan is deferred for thirty (30) years from the date of the initial purchase. As of the closing date of the sale, the loan is due and payable. The payoff amount due by Borrower is (i) the principal amount of the loan plus (ii) the proportional share of the appreciation of the property.

The proportional share shall be based on the ratio of the original downpayment assistance loan amount to the original Purchase Price of the property or the fair market value of the property at the time of purchase; whichever is higher (both called hereafter the “Purchase Price”). At the time that the property is sold or refinanced, the City will determine the value of the property (hereafter the “Sale Price”). The value of the property at sale is the contracted sale price or the Fair Market Value at the time of refinance.

The amount of appreciation is determined by subtracting the original purchase price to the borrower at the time of purchase from the sales price or fair market value at the time of sale or refinance. The Fair Market Value shall be the sales price or the appraised value of the property at the time of repayment, whichever is higher. If the property has not increased in Fair Market Value, the Borrower shall be obligated to repay the principal amount of the loan only.

Example of share of Appreciation: If the borrower receives the DALP loan in the amount of \$200,000 with the purchase price of \$650,000, the share appreciation would be 31%.

$$\frac{\$200,000 \text{ DALP Loan Amount}}{\$650,000 \text{ Purchase Price}} = 31\% \text{ of share Appreciation}$$

A) SAMPLE CALCULATIONS OF ELIGIBILITY:

The following examples illustrate the possible scenarios of funding eligibility for various DALP amounts given the variables in levels of income, household size, property price, Available Assets, and primary loan amount.

Total Combined income for a family HH of 4 at 100% AMI:	\$97,100
Purchase price of a property:	\$650,000
Borrower Down Payment (5%):	\$32,500
First Mortgage:	\$417,500
DALP Loan Amount:	\$200,000
Interest Rate:	4.625%
Term:	30 yr fix
Property Tax	\$677
Insurance:	\$121
Total Front-End Ratio:	36%
Total CLTV:	95.00%

B) SAMPLE CALCULATION OF REPAYMENT OBLIGATION

The following examples illustrate the possible repayment scenarios at resale or refinance:

Fair Market Value or Resale Price:	\$700,000
Original Purchase Price:	(\$650,000)
Appreciation:	\$ 50,000
Computation of City's Proportional Share City DALP (\$200,000) / Original Sale Price (\$650,000):	31%
Share of Appreciation 31% x \$50,000:	\$15,500
Principal DALP Loan Amount:	\$200,000
TOTAL REPAYMENT AMOUNT DUE:	\$215,500

- 10) **Prepayment Penalty:** There is no prepayment penalty associated with payment of these loans prior to the due date (sale or rental). However, prepayment must be in full; the loan cannot be partially repaid. If there is a prepayment, the amount due and owing will be determined by an appraisal (at the Borrowers own cost) to determine the amount of appreciation. The appraisal must be approved by the MOHCD Director.
- 11) **Assumable/Transferable:** The MOHCD DALP loans are not assumable or transferable. The loans must be paid in full upon sale or title transfer of the property
- 12) **Payoff Requests:** Borrower must submit a written request for payoff. If the borrower wishes to have a third party submit a request for payoff on their behalf, the borrower must submit a signed consent form allowing MOHCD to provide information to the third party. In addition, the requesting borrower must submit at their own cost, a current fair market appraisal report (appraisal report should be no more than 90 days old at the time of request for payoff). Upon receipt the above requested information, MOHCD will generate a payoff statement within 5 – 7 business days.
- 13) **Refinance/Subordination:** The DALP loan can be subordinated to the refinancing of the existing first mortgage for a lower interest rate and better loan term. Homeowners are allowed to take up to 3% of the new first mortgage amount as cash out to cover the cost of the refinance. Under no circumstances can the refinance amount be more than the original loan amount. If the refinance meets the City subordination requirements, the DALP loan will subordinate to the new first mortgage.

Subordination Requests: Borrowers must work with one of our participating lending officers to refinance their DALP Loans. For mortgage brokers, the funding lender needs to be approved as well. MOHCD will reject a subordination request for none participating lending officers. Please visit our website for **Subordination Document Checklist:** located on our website: www.sfmohcd.org

Home Equity Lines of Credit and Home Equity Loans - MOHCD does not allow DALP borrowers to open Home Equity Lines of Credit and Home Equity Loan. Borrowers who use such programs are in violation of their Program restrictions and will not be allowed by MOHCD to refinance their DALP loans. The DALP loan program will be due and payable with share of appreciation if the Borrower is deemed out of compliance with this policy and all other applicable program policies.

- 14) **Documentation and Security:** The following documents shall be executed by the Borrower to secure the loan after satisfaction of all requirements for funding:

Loan Commitment Letter – Ratified by Borrower, accepting the loan terms and conditions, expires in 45 days from the date of the commitment. Borrower must sign and return the commitment letter to the City within 5 business days of receipt.

Deed of Trust - Executed at the close of the escrow by the Borrower, for the benefit of the City and County of San Francisco to secure the Promissory Note.

Promissory Note - Executed at the close of the escrow by the Borrower for the benefit of the City and County of San Francisco and secured by the Deed of Trust.

- 15) Compliance with Federal, State and Local Laws and Ordinances:** Program funds shall be used in accordance with Federal, State and Local Laws, regulations and directives as they apply.

IV. GENERAL LOAN REQUIREMENTS AND COMPLIANCE:

- 1. Hazard Insurance:** For the life of the loan, each Borrower will be required to maintain hazard insurance, including fire and extended coverage with a loss payable endorsement to the City and County of San Francisco, c/o Mayor's Office of Housing and Community Development.
- 2. Title Insurance Policy:** The outstanding principal balance of the downpayment assistance loan must be covered by an ALTA Lender's Policy of Title Insurance naming the City and County of San Francisco c/o Mayor's Office of Housing and Community Development as it interests appear.
- 3. Non-Discrimination and Privacy Requirements:** All borrower eligibility requirements contained in this manual must be applied without regard to the race, creed, color, gender, religion or national origin of the borrower. Lenders shall be sensitive to the privacy interests of the borrowers, and should use the information received only for purposes of verifying the borrowers' eligibility for a downpayment assistance loan. It should be noted that all borrowers to downpayment assistance loan program are subject to the requirements of the Sunshine ordinance and may have any records provided to the City become a matter of public information upon appropriate request.
- 4. Public Records Act:** The City and County of San Francisco is subject to the requirements of California Public Records Act, Government Code Section 6250, et seq. The Public Records Act provides that virtually all documents held or used by the City in the course of conducting the public's business are public records which the City, subject to certain limited exemptions, must make available for inspection and copying by the public. Applications for loans or grants from the City are public records as are the completed loan and grant documents. Under Section 67.24(e) of San Francisco Administrative Code, applications for financing and all other records of communications between the City and the Borrower must be open to public inspection immediately after a contract has been awarded. All information provided by Borrower which is covered by that ordinance (as it may be amended) will be made available to the public upon appropriate request.

V. PROGRAM PROCEDURES FOR LENDERS

Eligible Borrowers apply for downpayment assistance loans through Participating Lenders or lending officers only. Participating Lenders may submit applications only after determining that the Borrower is eligible for a first mortgage and also eligible for the City's downpayment assistance loan. Borrowers' applications must be complete with all required attachments, including a ratified purchase agreement for the purchase of a specific property.

Here is link to the list of participating lenders: www.sfmohcd.org

The program's processing procedures are designed to coincide with the standard loan processing and underwriting procedures that are in place at most mortgage lending institutions. Recognizing that there are procedural variations among the lenders, the procedures outlined herein may vary somewhat from lender to lender. However, the lender, the City and the borrower must complete all the steps of processing described in this manual.

The Mayor's Office of Housing and Community Development will act as the Program Administrator. If the City habitually receives incomplete or incorrect applications from a particular lender, MOHCD may discontinue the use of the lender as participating in the program.

DALP PARTICIPATING LENDERS - Lending Officers or mortgage brokers who would like to become a participating lender for San Francisco DALP and MCC programs must complete DALP/MCC online training and sign the Lender Participation Agreement. If you are mortgage brokers, your loan must fund through one of our participating lenders. Each lending institution or mortgage broker company (not individual loan officer/agent) agrees to pay an initial participating fee. For each subsequent year the Lender agrees to pay an annual renewal fee. All fees paid by the Lender are non-refundable. Mortgage Loan Officers (MLO) must have a valid NMLS ID and in good standing. MLO must abide by the Mayor's Office of Housing and Community Development program guidelines, and perform business in a professional and ethical manner at all times.

VI. DALP APPLICATION SUBMISSION

1. Borrower's Responsibilities:

- a. Borrower will be required to complete an approved first-time homebuyer education course. A copy of Homebuyer Education Certificate must be included with the application package.
- b. Enters into a purchase agreement with a seller.
- c. Applies to a Participating Lender for Primary Mortgage Loan.
- d. Provides a signed and dated Loan Application for a Downpayment Assistance Loan
- e. Provides a signed and notarized copy of Income Tax Affidavit (DALP-3)-if applicable
- f. Provides a signed and notarized copy of Unemployed Affidavit-if applicable
- g. Provides a signed and notarized copy of the First Time Homebuyer Affidavit (DALP-4).
- h. Provides a signed HomeownershipSF Consent Form
- i. Provides a signed and notarized copy of the General Release and Waiver of Liability.
- j. Pay non-refundable application fee in the amount of \$530 in cashier check; payable to the City and County of San Francisco. \$640 if use MCC program together with DALP.
- k. Provides income verification documentation as required by the guidelines to establish program eligibility.
- l. Self-employed borrower must provide a signed and notarized copy of Self-Employed Affidavit,
 - All Profit and Loss statements from the past 3 years (Schedule C)
 - A notarized estimated Profit and Loss statement for the current year
 - Copies of all invoices and payments made to the borrower as a part of self-employment in the current calendar year.
- m. Upon approval of downpayment assistance loan, the borrower signs a copy of the City's loan commitment letter indicating acceptance within 5 working days.

2. Lender's Responsibilities:

- Lender will ensure that participating loan officers receive training from MOHCD on a regular basis, and keep current on the products available to first time, low-moderate income homebuyers
- Lender receives an application from a borrower who has undergone counseling from a Homebuyer Education Counseling Agency
- If a Lender receives an application from a borrower who does not possess a Homebuyer Education Counseling Certificate, Lender will refer borrower to a counseling agency to complete the workshop before submitting an application to the City
- Lender will work with borrower and counseling agency to apply for all available subsidies and programs for which the borrower qualifies.
- Performs Standard Lender underwriting process.
- Lender acknowledges that the MOHCD requires 10 business days upon receipt of a complete loan package to process, review, and underwrite a DALP loan.
- **Lender further acknowledges that** the MOHCD requires an additional 5 business days to fund all DALP loans from the time of approving a final package of loan documents. The City and County of San Francisco cannot *rush* funding to meet rate expiration and other deadlines. Lender arrangements must be made to allow for this funding period.

Submits to the City:

THE APPLICATION PACKAGE MUST BE BOUND IN LEGAL SIZE MANILA FOLDER WITH TWO FASTENERS

*Please note that beginning January 1, 2015, MOHCD will only accept digital files. More information about digital file requirements will be available as that date approaches.

- Program Application received from borrower [DALP-1]
- Non-refundable application fee, a cashier's check from the Borrower(s) in the amount of \$530 (or \$640 if use MCC program together with DALP)
- Fully executed Lender's Certification [DALP-2]
- Borrower's household income verification documentation (three current and consecutive pay stubs or provide a copy of current Profit and Loss Statement if self employed).
- Last three years of Federal Income Tax Returns (signed and dated), along with corresponding schedules and W-2s.
- Income Tax Affidavit (if applicable) [DALP-3]
- First Time Homebuyer Affidavit [DALP-4]
- Homebuyer Education Certificate
- HomeownershipSF Consent Form
- Financial Statements (declaration of Assets)

- Gift letter (if applicable)
- Sign IRS Form 4506.
- Preliminary Title Report
- Wire Instructions
- Receipt for Escrow Deposit
- Ratified Sales Agreement (including all counter offers).
- A copy of Inspection or Contractor Report of the Property
- The General Release and Waiver of Liability.
- Fair Market Value Appraisal
- First mortgage loan application (1003)
- First Mortgage Approval Letter and 1008 form from Lender
- A Copy of Good Faith Estimate (GFE) or Estimated Settlement Statement (HUD-1)
- A copy of Borrower's Credit Report
- A copy of Verification of Employment (VOE)

3. City Responsibilities:

- Reviews loan package to ensure completeness of forms and substantiating documentation.
- Evaluates Borrower eligibility.
- MOHCD will forward a letter of approval (commitment letter) or denial to the lender (via email) within 10 business days of receipt of completed package. From the day of commitment, we will need another 7 business days for funding.
- Borrower must sign the commitment letter and return to the City within 5 business days.
- After we receive the commitment letter back, we will email the escrow instructions and loan documents to the title company.

The following closing documents must deliver to MOHCD for review before funding:

- The executed original City notes (DALP Note);
- Certified copy of the executed City notes (DALP Note);
- Certified copy of the executed City deeds (DALP Deed);
- Certified copy of the Grant Deed;
- Certified copy of the Requested for Copy of Notice of Default;
- Certified copy of the First Deed of Trust;
- Certified copy of the First Note;
- Certificate of Homeowner Insurance Policy;
- An estimated HUD-1 Settlement Statement; and
- Any other liens behind the City loans.

Physical copies of all the above requested documents must be delivered to DALP loan processing, underwriting and approvals require 10 business days. Loan commitment shall be issued in 10 days after MOHCD receives a complete and accurate lender forms. Please allow 5 business days for MOHCD to fund, after MOHCD receives the borrower's executed City promissory note and copies of documents described above from escrow.

- Funding as specified in the commitment letter will be placed on reserve for a period of 45 days from date of the commitment. If for any reason, escrow cannot close within the commitment period, please notify the Mayor's Office of Housing and Community Development immediately.
- Monitors Borrowers throughout the life of the loan to ensure compliance with residency requirements.

All loan packages will be processed by the City according to the date of receipt. All required documents must be included in the application package. Incomplete packages will delay the processing of the application and may be returned for completion.

MOHCD's approval is final, if the first mortgage loan amount & term changes before close escrow, additional documents must be submitted to City for reassess the DALP loan amount.