

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)**

SECTION 1 - INTRODUCTION TO DALP

1.1 Program Summary

The City and County of San Francisco (**the "City"**), 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 responsibilities of the MOHCD, the Borrowers and the first mortgage lenders. Finally, it describes the qualifications and requirements of prospective first-time homebuyers. MOHCD shall review and update these guidelines from time to time to reflect changes in the market and better meet the community's needs. Material changes to the Program will be emailed to Lenders and posted on MOHCD's website at www.sfmohcd.com.

1.2 Definitions

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.

Area Median Income: The median income for the San Francisco Metropolitan Statistical Bay Area as defined by HUD, and adjusted for household size. The amounts are adjusted by HUD on an annual basis.

Back-end ratio: The ratio between monthly household income and monthly housing costs plus all recurring debt payments, such as installment payments, credit card payments, lease payments, child support and other loan payments.

Bedroom: A habitable room that meets the minimum requirements as defined in Section 2.2D of this DALP Program Manual. 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.

Borrower: The applicant and all persons 18 years and older who will reside in the property.

Commitment: A written commitment by MOHCD to the Lender signifying that the Lender's Loan Packet has been approved and the Borrower meets the eligibility criteria associated with the applicable Program.

Condominium: As defined in Planning Code Section 401.

DAHLIA: The Database of Affordable Housing Listings, Information and Applications.

Dependents: The household members who reside in the property and who are listed as dependents in the Borrowers' Federal Income Tax returns.

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.

Domestic Partner: As defined in Family Code Section 297-297.5.

Educators: Educators currently employed with the San Francisco Unified School District (SFUSD). All United Educators of San Francisco (UESF) members, including teachers, paraprofessionals, and other certificated staff (e.g., counselors, deans, nurses, speech pathologists, psychologists, behavioral analysts, social workers, Special Education (SPED) Content Specialists and librarians), and also including those who work in the SFUSD Early Education department.

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 two most recent tax returns 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 homebuyers.

Fair Market Value: The value of a property based upon the determination of an authorized appraisal report mutually acceptable by both the City and the Borrower.

FICO: Fair Isaac Corporation. The best-known and most widely used credit score model in the United States.

First Responder: An active uniformed, sworn member of the San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD) and/or San Francisco Sheriff's Department (SFSD).

First-time homebuyer: An individual is to be considered a first-time home buyer who (1) is purchasing the residential property; (2) will reside in the residential property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential unit during the three-year period preceding the date of the DALP application.

Fiscal Year: The fiscal year of the City and County of San Francisco.

Front-end Ratio: The ratio between monthly household income and monthly housing costs, including first mortgage principal, interest, taxes, hazard insurance and homeowner's association dues (HOA).

Gift Fund: A borrower may use funds received as a personal gift from an acceptable donor. An acceptable donor includes a relative, defined as any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship who is not part of the household. Gift funds are not allowed from a fiancé or fiancée who is not part of the household.

Gross Income: The anticipated income of a borrower for the twelve-month period following the date of determination of Household Income, as determined by MOHCD pursuant to Section 2.1B of this DALP Program Manual.

Home: Any residential property which the borrower or any of the borrower's household has ever owned and designated as their Principal Residence.

Household Income: The combined Gross Income for the Borrower(s), and any other person 18 years of age or older who is expected to live in the residence, as determined by MOHCD pursuant to Section 2.1B of this DALP Program Manual.

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.

HUD: The U.S. Department of Housing and Urban Development.

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.

Liquid Assets: Liquid Assets are any funds which are available to liquidate, including but not limited to savings, checking accounts, Certificates of Deposit, stocks, gifts, cash on hand, and other investments held by any occupant of the Borrower's household including minors.

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".

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.

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 Program.

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.

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.

Pre-Approval: An evaluation of a potential Borrower by MOHCD that determines whether the Borrower qualifies for a DALP loan based on his or her income and assets eligibility. If a Borrower is pre-approved, MOHCD will issue a pre-approval letter to Eligible Borrowers and reserve DALP funds (a "Reservation"), provided that Borrower satisfies the requirements set forth in Section 6.

Primary Financing: The first mortgage made by a Participating Lender for the purchase of a Principle Residence, which shall be the maximum loan affordable to an eligible Borrower.

Principal Residence: (1) "Single-Family House", (2) "Condominium" or (3) "Townhouse/Town Home, (4) Loft or (5) Live Work Unit." It does not include 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.

Program: By Ordinance No. 445-97, the Board of Supervisors of the City and County of San Francisco has established the "Affordable Housing and Homeownership Bond Program" in Chapter 81 of the City's Administrative Code (the "Program").

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.

Regulations: The Regulations for DALP as adopted by The Board of Supervisors of the City and County of San Francisco and as amended from time to time.

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.

Sales Contract (Purchase Agreement): A real estate contract of sale functions as a legally binding agreement between two parties (i.e. Borrower and a seller) concerning the terms of purchase or transfer of real property.

SFMSA: San Francisco Metropolitan Statistical Area.

Single Unit Residence: A single-family one-unit

residence. **Spouse:** A partner in a marriage.

Total Transaction Costs: The cost of the purchase of a home, including the sales price, closing costs and transactional fees.

Townhouse (Town Home): A single-family dwelling unit constructed in a group of three or more attached units in which each unit extends from foundation to roof and with a yard or public way on at least two sides.

1.3 Eligible Use of Funds

- A. DALP Loans will be made from available funding sources for the purpose of providing assistance to eligible low and middle income First Time Homebuyers who would otherwise not be able to purchase a home in San Francisco.
- B. DALP funds are limited to providing loans to eligible First Time Homebuyer households whose Household Income of all members 18 years of age and older do not exceed 175% of the Area Median Income, as determined in accordance with Section 2.1B below.
- C. DALP funds may be used to cover customary, non-recurring closing costs up to 2% of the purchase price or appraised value, whichever is less.

1.4 Ineligible Use of Funds

- A. Cash disbursed to the Borrower cannot exceed \$250 at close of escrow. Any excess cash must first be applied towards the reduction of DALP loan amount.
- B. DALP funds cannot be used to pay for improvement and repair costs.
- C. DALP funds cannot be used to pay down the first mortgage principal, debts or liens.

If the Borrower is required by the Lender to pay off debts in order to qualify, these items must be paid by the Borrower, and reduced from the maximum liquid assets allowable under the DALP Program. In such case, the Lender is required to evidence the need by providing the underwriting documents, such as Underwriting Transmittal Summary (Form 1008), and DU/LP findings. The amount of the debts must match the amount on the Closing Disclosure or Settlement Statement as applicable.

SECTION 2 - PROGRAM REQUIREMENTS

2.1 Borrower Eligibility Requirements - In order to apply for a DALP loan, Borrower must meet the following requirements:

A. First Time Homebuyer Requirements

No member of the applicant household may have owned any interest in a residential unit during the three-year period preceding the date of the DALP Pre-Approval application. The period shall be counted backwards from the DALP Pre-Approval application submittal date. An applicant shall be deemed to have owned an interest in a residential unit regardless of whether or not that interest results in a financial gain, is in another state or country, or if the applicant has ever used the property as a primary residence. Notwithstanding the foregoing, the following interests shall not, by themselves, disqualify an applicant from being considered a first time homebuyer: (1) ownership of timeshares; (2) loan cosigners from previous real estate transactions; (3) appearing on title solely in the capacity as a trustee for a trust, where the trustor is living at the time and in the residence; (4) being a named beneficiary of a trust that includes a housing unit amongst the trust assets, but only if the trustor is living at the time and in the residence; and (5) ownership of shares in a limited equity co-op.

MOHCD may verify first-time homebuyer status by: (a) reviewing mortgage deductions on the three most recent years of federal tax returns for each applicant; (b) relying on a signed statement by an applicant stating his or her homeownership status; (c) a title search; or (d) any other means reasonable to determine First-time Homebuyer status.

In addition to the above, all applicants must also complete and submit a First Time Homebuyer Affidavit (“**FTH Affidavit**”).

B. Income Requirements

1. Maximum Income Limits: Borrower’s Household Income cannot exceed 175% of the Area Median Income (AMI). As of April 1, 2018, the income limits are as follows:

| Persons Per household | One | Two | Three | Four | Five |
|------------------------------|------------|------------|--------------|-------------|-------------|
| 80% AMI | \$66,300 | \$75,750 | \$85,250 | \$94,700 | \$102,300 |
| 90% AMI | \$74,600 | \$85,250 | \$95,900 | \$106,550 | \$115,050 |
| 100% AMI | \$82,900 | \$94,700 | \$106,550 | \$118,400 | \$127,850 |
| 110% AMI | \$91,200 | \$104,150 | \$117,200 | \$130,250 | \$140,650 |
| 120% AMI | \$99,500 | \$113,650 | \$127,850 | \$142,100 | \$153,400 |
| 175% AMI | \$145,100 | \$165,750 | \$186,450 | \$207,200 | \$223,750 |

2. Determining Baseline Household Income: Household Income maximums are based on “gross” income derived from all sources as detailed in Internal Revenue Code (26 USC Section 61), whether or not exempt from federal income tax. Such income includes, but is not limited to, the following:

- a. The full amount (before any payroll deductions) of all wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensating for personal services.
- b. The full, gross amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipt including a lump sum payment

for the delayed start of a periodic payment; include amounts received by adults on behalf of minors, or by minors intended for their own support. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.

- c. Welfare assistance (excluding food stamps)
- d. Alimony/maintenance and child support payments
- e. All regular pay, special pay, and allowances of a member of the Armed Forces
- f. The income, salaries, and other amounts derived from operation of a business or profession
- g. Income from assets
- h. Income from an interest in an estate or trust
- i. Interest; dividends; Capital Gains; Rents, Royalties
- j. Lottery/gambling winnings paid in periodic or lump sum payments
- k. Allowances for housing, auto, food, etc.
- l. Recurring contributions or gifts regularly received from organization or from persons not residing in the dwelling

The following sources of income shall be excluded from the total household income:

- a. Income from the employment of any Household members under the age of 18 unless such Household member is a borrower on the loan
- b. Payments received from the care of foster children or adults, or adoption assistance
- c. Lump sum additions to family assets (e.g., inheritances, capital gains, insurance policy, death benefit payment, stock options payout)
- d. Medical expense reimbursement received specifically for the medical expense of a household member
- e. Income of a live-in aide
- f. All forms of student financial assistance paid directly to a student, educational institution, or a veteran

- 3. Income Calculations:** MOHCD projects future income based on the Gross Income set forth on each applicant's income documentation for each source of income. MOHCD must review income documentation for all Household members 18 years and older, regardless of dependency status. Earned income of the employment of any Household members under the age of 18 is not counted. However, unearned income (e.g., child support, social security, and other benefits paid on behalf of a minor) is included.

Employment Income

Annual employment income must be determined for each job currently held. The following three methods have been adapted by MOHCD for calculating household income for qualification purposes under the DALP. All three methods will be applied to each household, and MOHCD will use the methodology that yields the highest annual household income.

Method #1: Income from Paystubs

Use the most current paystub, divide the year-to-date (YTD) gross income by the current pay period number to get the pay period average. Then multiply the pay period average by the total number of pay periods the applicant receives in one year.

Example of Calculating Income with Paystubs:

YTD income as stated on the most recent paystub for the calendar year = \$20,000

Current pay period on most recent pay stub = 10

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

Total number of pay periods in one year for the applicant = 24

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

Method #2: Year-to-date Income and Last Year's Income

Use the most current paystub (or the last paystub received if the applicant currently receives no income) to determine the applicant's year-to-date gross earnings. Add the year-to-date earnings to the household's total income from the most recent year's income tax return (*line 22 of IRS 1040). Divide this number by 12 (to account for last year's earnings) plus the number of months the applicant's year-to-date income encompasses. This is the average monthly income. Multiply this number by 12 to annualize.

Example of Calculating Income using YTD plus Last's Year's Income:

YTD income as stated on the most recent paystub for the calendar year = \$20,000

Total income from last year's income tax return: \$50,000

Number of month's applicant has worked this year: 6

$\$50,000 + \$20,000 = \$70,000$

6 months + 12 months = 18 months

$\$70,000/18 = \$3,888.89$ (average monthly income)

$\$3,888.89 \times 12 = \$46,666.67$ (annualized income)

Method #3: Two-Year Average

Add the household's total income (*line 22 of IRS 1040) from the two most recent years' income tax returns. Divide this number by 2 to get the two-year average.

Example of Calculating Income using the Two-Year Average:

Total income from last year's income tax return: \$50,000

Total income from the previous year's income tax return: \$55,000

$\$50,000 + \$55,000 = \$105,000$

$\$105,000/2 = \$52,500$ (average annual income)

In the above Method #1 and Method #2, in cases where employer paid health insurance costs are included within the gross income on an applicant's paystubs, this income may be excluded from the gross income calculation.

Overtime, Tips and Bonuses

When calculating income based on paystubs, overtime, tips and commission will be annualized. Bonuses will be annualized unless the applicant can provide documentation from the employer that the bonus was a one-time occurrence. In this case, the bonus amount will be removed from the annualization of the income and added in one time to the total annual income that is determined.

Seasonal Workers

MOHCD will not annualize current income for seasonal workers who provide a Verification of Employment from their employer(s) verifying that the work does not occur year-round. Use the calculation guidelines for employment income to determine annual seasonal income, while discounting the amount for off season time. Include any unemployment compensation the borrower has received or may receive during the off season.

Child Support

Income from Child Support may be excluded with evidence that the child support is scheduled to be terminated within 3 months of the date of application.

** It does not include self-employed borrowers who also have business tax returns. Negative adjusted income from tax returns may not be used to offset income generated from other sources when determining compliance with income limits.*

Wage Reductions

Applicants whose income from employment has declined in the past 6 months must provide evidence verifying that the change was not voluntary – for example that the applicant did not quit a job or choose to reduce hours.

Income from Government Income

For applicants receiving government income of any source, the income is derived by multiplying a regular monthly statement by 12 months or by referring to an annual award letter.

Self-employed Income

All self-employed applicants must submit a Self-Employed affidavit provided by MOHCD. Self-employed borrower's employment and income will be verified by obtaining from the applicant: (a) copies of his or her federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS for the past three years with all applicable schedules attached, and (b) YTD profit & loss statement; and (c) copies of all invoices and payments made to the borrower as a part of self-employment in the current calendar year (if applicable).

Self-employment income calculations will be based on the adjusted income from the two most recent years and YTD Profit & Loss statement. The adjusted income shall include net income from tax returns with any depreciation or amortization added back. If the resulting adjusted income is negative, count the income as \$0. Negative cash flow from a business may not be used to offset income generated from other sources when determining compliance with income limits.

MOHCD will apply the following three income methods to calculate self-employment income, and use the calculation that yields the highest annual income to determine eligibility.

Method #1: YTD Profit & Loss Statement

Divide the year-to-date (YTD) adjusted income by the number of months on YTD Profit & Loss statement to get the average monthly income. Multiply this number by 12 to annualize.

Example of Calculating Income with Profit & Loss statement:

YTD adjusted income as stated on Profit & Loss statement = \$20,000

Number of months = 4

Average monthly income = \$5,000 (\$20,000 divided by 4)

Annualized pay = \$60,000 (\$5,000 x 12)

If a business started in the same year as the year of qualifying, the income will be calculated using this method. In this case, the borrower must supply copies of all invoices and payments made to the borrower in support of the Profit & Loss statement submitted.

Method #2: YTD Profit & Loss Statement and Last Year's Tax Return

Use the adjusted YTD Profit & Loss statement to determine the Borrower's year-to-date earnings. Add the YTD earnings to the Borrower's adjusted income from the most recent year's income tax return. Divide this number by 12 (to account for last year's earnings) + the number of months the Borrower's YTD income encompasses. This is the average monthly income. Multiply this number by 12 to annualize.

Example of Calculating Income using YTD Profit & Loss Statement and Last Year's Tax Return:

YTD adjusted income as stated on Profit & Loss statement = \$20,000

Adjusted income from last year's income tax return = \$50,000
Number of months from the YTD Profit & Loss Statement = 4
 $\$50,000 + \$20,000 = \$70,000$
4 months + 12 months = 16 months
 $\$70,000/16 = \$4,375$ (average monthly income)
 $\$4,375 \times 12 = \$52,500$ (annualized income)

If the Borrower is self-employed for less than two years but over one year, annual income will be calculated by either 1) annualizing YTD Profit & Loss statement and last year's tax return, or 2) annualizing YTD Profit & Loss statement. The larger value of the two calculations will be selected as annual self-employment income. In this example, the calculation from annualizing YTD Profit & Loss Statement (\$60,000) is higher, and will be selected as the Borrower's self-employment income.

Method #3: Two-Year Tax Returns

Add the adjusted income from the two most recent years' income tax returns. Divide this number by 2 to get the two-year average.

Example of Calculating Income using the Two-Year Average:

Adjusted income from last year's income tax return: \$50,000
Adjusted income from the previous year's income tax return: \$45,000
 $\$50,000 + \$45,000 = \$95,000$
 $\$95,000/2 = \$47,500$ (average annual income)

If the Borrower is self-employed for over two years, MOHCD will apply the above three income methods to calculate self-employment income, and use the calculation that yields the highest annual income to determine eligibility. In this example, the calculation from annualizing YTD Profit & Loss Statement (\$60,000) is the highest, and will be selected as the Borrower's self-employment income.

Income from Capital Gain, Dividends and Taxable Interest

MOHCD will apply the above three income methods (if applicable) to calculate income from capital gain, dividends and taxable interest, and use the calculation that yields the highest annual income to determine eligibility.

Other Income

Any source of regular income whether in cash or recurring deposits into a bank account prior to application may be treated as income.

Example of Other Income: Vacant Land as source of income (for example, Christmas Tree Sales Pumpkin Patch, Parking Lot).

In the case of an applicant who is paid in cash for employment, MOHCD will consider those applicants self-employed. Please review the requirements for self-employed income.

Non-taxable Income Adjustments

MOHCD may give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments. MOHCD must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes tax returns, award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, MOHCD may develop an “adjusted gross income” for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower’s income for qualifying purpose.

Unemployed Applicants

Unemployed applicants who are receiving no income at all should submit an Unemployed Affidavit as provided by MOHCD in place of income statements. Applicants receiving unemployment benefits do not need to complete the Unemployed Affidavit as unemployment benefits are considered income. All unemployed applicants will be required to complete and sign Authorization for Release of Records from Employment Development Department (“**EDD Authorization for Release of Records**”) during the DALP Loan application processing for MOHCD to validate applicant’s unemployment and income.

Verification of Employment

An official Verification of Employment signed by an applicant’s employer may be used as the final proof of an applicant’s income, if needed.

Requirement of a Divorced Borrower

The income of a Borrower’s Spouse must be included in the Gross Annual Income for the household, unless a Borrower is legally divorced from his or her spouse. A Borrower must provide MOHCD with a copy of a court-ordered divorce decree in order to be considered “legally divorced”. A petition for dissolution will not suffice.

C. Liquid Assets Requirements

- 1. Liquid Assets Inclusions:** When calculating a Borrower’s assets, all Liquid Assets are to be considered, including, but not limited, to the following: savings accounts, checking accounts, Certificates of Deposit, the total balance of any joint accounts, money market or mutual fund accounts, in trust for accounts (amount accessible), stocks or bonds, gifts, cash on hand, amount used or borrowed (from a life insurance policy, IRA or retirement accounts), and other investments held by any occupant of the Borrower’s household including minors.
- 2. Liquid Assets Exclusions:** The cash surrender value of life insurance policy, the value of an IRA account, the value of retirement accounts (including but not limited to 401K and 403B accounts), or the value of a 529 college savings may be excluded from an applicant’s Liquid Assets.
- 3. Pre-and Post-Purchase Assets:** Prior to purchase, Borrower can have up to \$300,000 in Liquid Assets. If a Borrower’s Liquid Assets exceed \$300,000 at the time Household Income is determined, Borrower will not qualify for a DALP loan. If Borrower’s Liquid Assets are less than or equal to \$300,000 at the time the property is purchased, Borrower may retain a maximum of \$60,000 total in Liquid Assets and must apply any Liquid Assets in excess of \$60,000 toward the purchase of the property.
- 4. Restrictions:** Evidence that Liquid Assets have been transferred to another individual or into an unavailable asset account, or have been spent (except on unexpected emergencies, such as funeral expenses, travel costs related to illness, repair of a vehicle, medical needs and housing needs) to avoid use in the purchase will result in disqualification of the Borrower’s application.
- 5. Deposits:** Deposits of \$500 or more into a depository account or newly opened account must be sourced. Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented to determine household income compliance.

6. **Withdraw Retirement Accounts:** Withdrawal of retirement accounts towards down payment and closing costs are generally allowed with proof of liquidation. However, the borrower shall consider all of his or her options before using retirement accounts, and consult with a tax advisor to fully understand the potential tax consequences of such withdrawal in addition to the applicable early withdrawal penalty.

D. Eligible Household Member

1. Household Size Determination and Requirements

The size of the household is determined by counting together every person who intends to live in the property, regardless of age or dependency status.

All spouses or domestic partners must be included in the household and must appear on the application, title and loan for the property to be purchased with a DALP loan.

All household members who are under 18 years of age must be the legal dependent of an adult household member, except in the case of emancipated minors, as claimed on the most recent federal Income tax return, or legal minor children of titleholders.

Elderly adult household members may be considered as dependent as long as they are listed as a dependent on the two most recent tax returns.

Pregnant applicants will be counted as one household member unless the child is born prior to the DALP loan closing.

Verified live-in assistants and foster children may be counted toward household size in order to determine unit size and must appear on the application for the DALP loan but will not be counted in income determinations and may not appear on title and loan for the property.

Temporarily absent household members who plan to live in the property upon return must appear on the application for the property. Such household members include, but are not limited to, household members serving temporarily in the armed forces, or who are temporarily institutionalized.

Divorced or separated borrowers who have joint custody of their children should include the children in their household count if they have at least 50% custody of the children. Borrowers who do not have custody should not include the children in their household count.

2. **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.
3. **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 two most recent federal income tax returns or legal minor children of titleholders. Spouses or Domestic Partners are not considered dependents; and
 - (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.

E. Title Transfer Restrictions

Title transfers are not permitted except under the following limited circumstances: (A) a transfer resulting from death of a borrower where the transfer is to a co-borrower; (B) a transfer where the spouse or domestic partner becomes a co-owner of the property; (C) a transfer into an inter vivos trust in which the borrower is the sole beneficiary and continues to occupy the property as a principal residence; or (D) a transfer resulting from a decree of dissolution of marriage or domestic partnership, legal separation agreement, or from a property settlement agreement incidental to such a decree in which one of the borrowers becomes the sole owner of the property; or (E) a transfer between co-borrowers.

For any of the above permissible transfers, the homeowner must submit a written request to MOHCD for approval. The homeowner must present supporting documents with their request, including but not limited to, a copy of final trust agreement (any proposed change or revision to a MOHCD-approved trust must be first submitted to MOHCD for approval), marriage certificate or state domestic partnership, death certificate, divorce decree or legal separation agreement issued by court. Upon approval, MOHCD may require the homeowner to execute an addendum to City documents related to the property by which the transferee(s) shall assume the same rights and responsibilities with respect to those documents as the transferor(s).

Tenants in common is not a permitted form of ownership. Unmarried persons or three or more persons must hold title as joint tenants. MOHCD reserves the right to identify additionally prohibited title vesting and transfers.

F. First-Time Homebuyer Education Requirement

Before applying for a DALP Pre-Approval, all adult applicants age 18 and older must complete Verification of Homebuyer Education requirements from a MOHCD-approved HUD Certified First-time Home Buyer Education Provider. Legal dependents and children of applicants under the age of 24 are exempt from this requirement. The Verification of Homebuyer Education Form dated within the last 12 months from the date of issuance must be included with the DALP Pre-Approval application package.

Workshops and counseling sessions are available in multiple languages. MOHCD encourages applicants to enroll in a homebuyer education course in their strongest language. A list of MOHCD approved providers is available on MOHCD's website at: <http://sfmohcd.org/approved-first-time-home-buyer-counseling-agencies>

G. 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.

H. Immigration Status

MOHCD does not require proof of citizenship or immigration status as a criteria for qualifying for a DALP loan. However, all DALP applicants must qualify for first mortgage financing from a Participating Lender and many lenders may be unable to approve applicants without proof of legal immigration status.

I. Non-Discrimination and Privacy Requirement

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 DALP loan.

J. Conflict of Interest

The purpose of the homeownership loans and housing programs administered by MOHCD is to assist low-income and middle-income households with reaching the goal of homeownership, and to 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.

2.2 Property Eligibility Requirements

A. Property Requirements

All properties purchased with DALP funds must be Single-Unit Residences located in the City and County of San Francisco. The residences may be a single-family house, Condominium, Townhouse/Town Home, Loft or Live Work Unit (as long as the property will be used as the owner's principal residence).

Housing types excluded from the Program are:

1. Manufactured housing (mobile homes)
2. Cooperatives
3. Rental homes or any home a portion of which is to be rented
4. Investment homes
5. Properties from which a trade or business is conducted without the prior written MOHCD's approval of the proposed business use.
6. Properties purchased through a non-arm's length transaction, with an identity of interest between the buyer and seller or other parties participating in the sales transaction unless authorized by MOHCD (Approval may be granted by MOHCD on a case-by-case basis, and in its sole discretion).

B. Purchase of Tenant-Occupied Property

Under eviction protection covered by the SF Rent Ordinance, tenants may only be evicted by the landlord for one of the 16 just cause reasons under the Ordinance Section 37.9(a). DALP borrower cannot purchase a housing unit in which any unlawful rental eviction has occurred.

C. Property Size Requirements

Property size must be compatible with the size of the household. A minimum of one person per bedroom is required. There is no restriction on purchasing a housing unit that has fewer bedrooms than the household size. Properties containing rental units and in-law units in addition to the unit to be purchased are not eligible for a DALP loan.

D. Bedroom Requirements

All of the following criteria must be present to be considered a bedroom:

1. **Ceiling Heights:** Unless legally constructed as such, a bedroom shall have a ceiling height of no less than 7 feet 6 inches.

2. **Size:** A bedroom should be at least 70 square feet (exclusive of closets, bathrooms, or similar spaces) with no less than 7 feet in any horizontal direction.
3. **Door and Window:** A bedroom shall have a door and window. The window shall open to an area which leads either to a street or yard space.
4. **Direct Connection or Bathroom:** A bedroom shall **either:** (1) have a direct connection to the living space of the property, **OR** (2) have a separate bathroom with a toilet and sink, and a bathtub or shower.

Bonus room and finished room will be considered as bedroom, if the room meets all of the above criteria.

E. Property Flipping

DALP cannot be used to purchase properties resold within 90 days and priced more than 20% above the initial purchase price.

F. Inspection Reports Requirements

A “general home inspection”, performed by a state-licensed and independent third party home inspector, is required for all properties purchased with DALP funds. The inspection should include electrical, wiring, plumbing, roofing, insulation and structural features. In addition, MOHCD requires a “pest control inspection” report for wood destroying pests and organisms to be conducted by a reputable license holder issued by the California Department of Consumer Affairs and the California Structural Pest Control Board. Both inspection reports shall be no more than 90 days old at the time of DALP submission, acceptable to the borrower and submitted to MOHCD along with the DALP Loan application. All reported deficiencies that pose immediate health and safety hazard or code violation must be corrected as a condition prior to funding of a DALP Loan. The City and County of San Francisco will not be held liable for any misrepresentation, false claims or information contained in the inspection reports.

The City and County 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 MOHCD's Lead and Rehabilitation Department for evaluation and program qualification. Please visit MOHCD's rehabilitation website at www.sfmohcd.org for program requirements.

For newly constructed properties (Single-Unit Residences) an inspection report is recommended but not required. Properties over one year old but has not been previously occupied are considered existing units.

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

G. Appraisal Report

MOHCD requires a color fair market appraisal to be completed to Uniform Standards of Professional Appraisal Practice standards by qualified appraisers holding a California Certified Appraisal License (issued by the Office of Real Estate Appraisers), preferably with a Member of the Appraisal Institute member designation (issued by the Appraisal Institute), and with experience valuing similar properties in the Bay Area; A copy of the appraisal report must be attached to the DALP Loan application. The appraisal report should be no more than 90 days old at the time of submission of the DALP Loan application.

SECTION 3 - FINANCING REQUIREMENTS

3.1 General First Loan Requirements

Borrowers who apply for DALP funding must be able to qualify for a first mortgage from a Participating Lender prior to submitting a Pre-Approval application for a DALP loan. Borrowers must have sufficient funds to meet the required down payment and necessary reserves to close the purchase transaction. Unless approved by MOHCD, the DALP loan must be in second position behind the first mortgage.

A. Impounds

The primary lender must collect and manage impound accounts for payment of property taxes, hazard insurance and monthly mortgage insurance premium (if applicable) for the term of the primary loan.

B. Property Tax and Insurance Calculations

When determining the monthly amount of property taxes, hazard insurance and mortgage insurance premiums on all DALP loans, the following standard factors will be used, unless documentation can be provided to justify actual figures:

1. Property Taxes: 1.25% of the purchase price, adjusted monthly.
2. Hazard Insurance: 0.3% (0.003) of the loan amount, adjusted monthly.

C. First Mortgage Loan Term

The first mortgage loan must be a 30-year fixed rate mortgage, the mortgage payment must be fully amortizing. Loan Types not allowed: reverse mortgage, stated income, ARM – adjustable rate mortgage, interest-only, negative amortizing, and balloon payments. MOHCD reserves the right to identify additionally prohibited loan programs and/or characteristics.

D. FICO Score

MOHCD does not establish a minimum FICO score for DALP Borrowers. Lenders determine the minimum FICO score according to their own guidelines and loan products.

E. Co-Signing

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

F. Loan Signing

No power of attorney is allowed. All applicants must be physically present to sign loan documents.

G. Closing Costs

DALP Funds may be used to pay for non-recurring loan closing costs up to 2% of the purchase price or appraised value, whichever is less.

Lenders are allowed to charge only customary and reasonable costs necessary to close the mortgage loan. Excessive origination points are not allowed. Discount points paid for a rate buy-down is not allowed unless the buy-down is for the purpose of loan qualification, such as enabling the borrower to meet the maximum debt-to-income ratio established for the first mortgage loan approval. In such case, the Lender is required to evidence the need by providing the underwriting documents, such as Underwriting Transmittal Summary (Form 1008), and DU/LP findings. However, in no event shall the amount of closing costs exceed 3% of the purchase price.

H. Third Party Credits and Contributions

Credits and contributions from the third party, such as seller, realtor, lender, are allowed for non-recurring loan closing costs. All credits must be used in escrow, no more than \$250 cash may be paid back to borrowers at close of escrow. Any excess cash must first be applied towards the reduction of DALP loan amount.

3.2 DALP Loan Requirements

A. DALP Loan Amount

The maximum DALP loan amount is up to \$375,000. The qualifying loan amount will be the minimum amount necessary based on Borrower's financial needs in the purchase of an eligible dwelling.

Changes made to qualify for a larger amount of DALP loan are prohibited. These include but are not limited to: (1) reducing the gift funds stated on the application; (2) lowering the first mortgage loan amount the Borrower was pre-qualified for; (3) reducing third party credits and contributions; or (4) any other changes for the purpose of increasing the DALP loan amounts. Reasonable fee changes resulting from an underestimation of customary closing costs are acceptable.

B. DALP Loan Term

The term of the DALP is 30 years. The DALP is a no interest, no monthly payment, and deferred loan due upon sale, rent, or title transfer of the property. If requested by Borrower, MOHCD may approve, in its sole discretion, a maximum of two five-year extensions at the end of 30-year loan term.

C. LTV and CLTV

The minimum first mortgage Loan to Value (LTV) cannot be less than 50% of the purchase price or appraised value, whichever is less. The maximum Combined Loan to Value (CLTV) cannot exceed 97%, which includes the first mortgage, DALP and any other borrowed subordinate financing.

D. Front-End Ratio and Back-End Ratio

Borrower's monthly housing debt, including mortgage principal, interest, property taxes, property insurance, and if applicable mortgage insurance and homeowner's association dues cannot be less than 33% (Front-End Ratio) of the gross household income. The front-end ratio shall not be more than 40%. The ratio of monthly housing costs, plus all other household monthly recurring debts (including credit cards, car payments, etc.) cannot exceed 43% (Back-End Ratio) of the gross Household Income.

Some Borrowers may qualify for first-mortgage financing at higher front-end 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 front-end ratios if two or more of the following indicators are present:

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

Lenders and Borrowers seeking MOHCD approval of higher front-end 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 front-end ratios will be made in accordance with the above stated compensating factors; however, the maximum back-end ratio may not exceed 43%.

E. Debts Included in DTI Ratio

Generally, all recurring debt payments, such as installment payments, revolving account payments, lease payments, child support and other loan payments shall be included into the Borrower's Debt-to-Income (DTI) ratio. Refer to Section 3.2D above for maximum debt-to-income ratio limits.

1. **Installment Payments:** Installment debts with a remaining term of 10 months or more shall be included to the total DTI ratio.
2. **Revolving Accounts:** Use greater of \$10 or 5% of the balance if no payment amount is listed on the credit report.
3. **Lease Payments:** Lease payments must always be included as a debt when determining the total DTI ratio.
4. **Child Support:** Include all child support (including alimony or separation maintenance) obligations with a remaining term of 10 months or more.
5. **Student Loans:** Student loans must be included in the Borrower's liabilities regardless of the payment type or status of payments. Regardless of payment status, MOHCD is to use either: (1) the greater of 1% of the outstanding balance on the loan, or the monthly payment reported on the Borrower's credit report; or (2) the actual documented payment, provided the payment will fully amortize the loan over its term.
6. **Loans Secured by Financial Assets:** When a borrower uses his or her financial assets – life insurance policies, 401(k) accounts, individual retirement accounts, etc. – as security for a loan, the Borrower has a contingent liability. MOHCD will include this contingent liability as part of the Borrower's recurring monthly debt obligations when determining the Borrower's total DTI ratio. A copy of applicable loan instrument that shows the debt payment shall be included when submitting a DALP Loan application.
7. **Court-Ordered Assignment of Debt:** When a borrower has outstanding debt reflected on the credit report that was assigned to another party by a court order (such as under a divorce decree) and the creditor does not release the Borrower from liability, the borrower has a contingent liability. MOHCD will exclude this contingent liability as part of the Borrower's monthly debt obligation. A copy of divorce decree shall be provided in the DALP Loan application in order to exclude it from the DTI ratio.

F. Minimum Down payment Requirements

The borrower must contribute a minimum of five percent (5%) down payment. Of the total 5%, 2.5% must come from the Borrower's own funds from a verifiable source (held in a financial institution), and the remaining can come from gifts or grants. Borrower must have sufficient funds to meet the required down payment and necessary reserve funds prior to submitting a Pre-Approval application for a DALP loan.

G. Post Purchase Reserves

Borrower must have at least 3 months' worth of housing payments (principal, interest, property taxes, hazard insurance and homeowner's association dues) in reserves after purchasing the home. This provides assurance that the mortgage can be paid even if the borrower is experiencing cash flow problems.

Acceptable Sources of Reserves include Liquid Assets described in Section 2.1D (1). In addition, vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are also acceptable sources of funds for reserves.

When funds from retirement accounts are used for reserves, liquidation of funds is not required. The borrower must provide a complete copy of the most current quarterly or three consecutive month retirement account statement(s) identifying the borrower's vested amount and the terms of the retirement plan that permits the borrower to make withdrawals. When a retirement account only allows withdrawals in connection with the borrower's employment termination, retirement, or death, these funds should not be considered.

To account for income taxes and any early withdrawal penalties, MOHCD will count only 60 percent of retirement account funds towards reserves.

H. Allowable Age of Documents

Information used to make the DALP loan decision must be current. The table below shows the maximum age of documents allowable at the time of submission of the DALP Loan application.

| DALP Documentation Age Requirements | |
|---|-------------------------------------|
| Purchase Contracts | 15 business days remaining to close |
| Income & Assets | 60 days old |
| Credit, Title, Appraisal & Inspection Reports | 90 days old |
| Homebuyer Education Certificates | 12 months old |

I. 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 thirty (30) days from the date of the commitment. Borrower must sign and return the Commitment Letter to the City within five (5) business days from the date of issue.

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.

J. 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.

3.3 DALP Loan Calculation

Unless a default occurs, the DALP is deferred for thirty (30) years from the date of the initial purchase. As of the maturity date of loan term or closing date of the resale, the loan is due and payable. The payoff amount due from Borrower is the principal amount of the loan plus (ii) a proportional share of the appreciation of the property.

The proportional share shall be based on the ratio of the original down payment assistance loan amount to the Fair Market Value of the property at the time of purchase. The Fair Market Value of the property shall be the lower of the Purchase Price or the Appraised Value at the time of purchase (both called hereafter the "**Purchase Price**"). At the time that the property is sold or repaid, the City will determine the Fair Market Value of the property (hereafter the "**Resale Price**"). The Fair Market Value shall be greater of the Resale Price or the Appraised Value at the time of repayment. If the property has not increased in the Fair Market Value, the borrower shall be obligated to repay the principal amount of the loan only.

For purposes of determining the Appraised Value, MOHCD requires a fair market appraisal to be completed to Uniform Standards of Professional Appraisal Practice standards by qualified appraisers holding a California Certified Appraisal License (issued by the Office of Real Estate Appraisers), preferably with a Member of the Appraisal Institute member designation (issued by the Appraisal Institute), and with experience valuing similar properties in the Bay Area. The City has the option, at its sole expense, to select an appraiser to conduct an additional appraisal of the Property. If the two appraisals are not in agreement as to the Appraised Value of the Property, the amounts determined by the appraisals will be averaged to determine the Appraised Value of the Property.

Example of share of Appreciation: If the borrower receives the DALP loan in the amount of \$375,000 with the purchase price of \$1,250,000 the share appreciation would be 30%.

$$\frac{\$375,000 \text{ DALP Loan Amount}}{\$1,250,000 \text{ Purchase Price}} = 30\% \text{ of share Appreciation}$$

A. Sample Calculation 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 175% AMI: | \$207,200 |
| Purchase price of a property: | \$1,250,000 |
| Closing Costs (e.g. 2% of the purchase price) | \$25,000 |
| Borrower Down Payment (5%): | \$62,500 |
| First Mortgage: | \$812,500 |
| DALP Loan Amount: | \$375,000 |
| Interest Rate: | 4.875% |
| Term: | 30 yr. fixed |
| Property Taxes | \$1,302 |
| Insurance: | \$200 |
| Total Front-End Ratio: | 34.00% |
| Total CLTV: | 95.00% |

A. Sample Calculation of Repayment Obligation

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

| | |
|--|------------------|
| Resale Price: | \$1,300,000 |
| Original Purchase Price: | (\$1,250,000) |
| Appreciation: | \$50,000 |
| Computation of City's Proportional Share City DALP (\$375,000) / Original Sale Price (\$1,250,000): | 30% |
| Share of Appreciation 30% x \$50,000: | \$15,000 |
| Principal DALP Loan Amount: | \$375,000 |
| TOTAL REPAYMENT AMOUNT DUE: | \$390,000 |

3.4 DALP Loan Servicing

A. Prepayment Penalty

There is no prepayment penalty associated with payment of these loans prior to the due date (sale, rent or title transfer). 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.

B. 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.

C. Payoff Requests

Borrowers must submit a written request for payoff. If borrowers wish to have a third party submit a request for payoff on their behalf, they must submit a signed authorization allowing MOHCD to provide information to the third party. In addition, borrowers must submit a ratified purchase agreement, or a fair market appraisal report dated within 90 days of payoff request submission at their own cost. Please visit our website at www.sfmohcd.org for the Loan Pay-off Checklist Packet.

D. Refinance/Subordination

The DALP loan can be subordinated to the refinancing of the existing first mortgage for a lower interest rate and/or better loan term. Borrowers are allowed to take up to 3% of the new first mortgage amount as cash out to cover the customary closing costs of the refinance. Under no circumstances can the refinance amount be greater than the original loan amount.

The same individuals that were named as borrowers on the DALP loan used for the initial purchase must also be named as borrowers on any refinance loan unless MOHCD has approved the addition of a borrower by marriage or domestic partnership or the removal of a borrower by death, divorce or dissolution of domestic partnership or similar change.

MOHCD will not review the household income for Program qualification upon refinancing. Borrowers must work with one of our approved lending officers to refinance their DALP Loans. This applies to funding lenders as well when borrowers are working with a mortgage broker. Please visit our website at www.sfmohcd.org for the Subordination Checklist.

E. Home Equity Lines of Credit and Home Equity Loans

MOHCD does not allow DALP borrowers to open Home Equity Line of Credit and Home Equity Loans. 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 will be immediately due and payable together with City's share of appreciation if a Borrower is deemed out of compliance with this policy or any other applicable program policies.

SECTION 4 – GENERAL REQUIREMENTS AND COMPLIANCE

4.1 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.
1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94103
Lien#

4.2 Title Insurance Policy

The outstanding principal balance of the down payment 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.

4.3 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 DALP loan. It should be noted that all borrowers to down payment 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.

4.4 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.

SECTION 5 – PROGRAM PROCEDURES FOR LENDERS

The Mayor's Office of Housing and Community Development will act as the Program Administrator. Eligible Borrowers may only apply for down payment assistance loans through Participating Lenders or lending officers. The participating lenders shall adhere to MOHCD loan policies, standards of lender form packaging, application process and time lines. Submission of incomplete loan application package or submission of inaccurate information declared in lender forms will delay the processing, review, underwriting, approval and closing of the sale. If the City habitually receives incomplete or incorrect applications from a Participating Lender, MOHCD may discontinue the use of said Lender for DALP.

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.

DALP PARTICIPATING LENDERS - All loan originating institutions or mortgage broker companies working with our programs and directly with applicants are required to submit a lender participation agreement signed by a signing authority and remit an annual lender fee. Each lending institution, not individual Mortgage Loan Originators (**MLO**), will pay the non-refundable participating fee; new lenders will pay an Initial fee, existing lenders will pay a reduced Lender Renewal fee. This fee covers trained MLOs that have a valid NMLS ID and are in good standing. MLOs who are listed on our approved lender list are also required to sign a loan originator participation agreement, attend training annually and earn a passing score on the MOHCD Housing programs quiz. MLOs must abide by the MOHCD program guidelines, and perform business in a professional and ethical manner at all times. MLOs may be removed from the participating lender list, regardless if their lending institution has paid the annual renewal fee. For more information and lender current fees, please visit- <http://sfmohcd.org>.

SECTION 6 – DALP RESERVATION AND PRE-APPROVAL

6.1 Reservation and Lottery Process

To obtain a DALP loan, a Borrower must first apply for pre-approval of a DALP loan and request a reservation of DALP funds. If a Borrower is pre-approved, MOHCD will issue a pre-approval letter to Eligible Borrowers and reserve DALP funds (a “Reservation”), provided that Borrower satisfies the requirements set forth below. A Reservation helps Eligible Borrowers understand how much they can afford when looking to purchase a home (Principal Residence). Reservations will be allocated through a lottery process and are always subject to availability of DALP funds during a fiscal year.

A Reservation does not constitute final loan approval nor guarantee funding. A DALP loan will only be funded when the Borrower receives a loan commitment from MOHCD, satisfies the Reservation timeframe described below in Section 6.2E and meets the DALP requirements.

6.2 Reservation Procedures

A. Reservation Request

To apply for a DALP Loan and Reservation, the Borrower must first submit a signed complete Pre-Approval Application packet via a secured email link provided by MOHCD, or delivery by mail or in person by the Reservation deadline established each fiscal year. A Borrower’s Pre-Approval Application packet must include ALL of the following:

- DALP Pre-Approval Application
- Signed and dated HomeownershipSF Consent Form
- Verification of Homebuyer Education Completion
- First mortgage loan pre-approval letter
- Borrower(s) three most current and consecutive paystubs
- Borrower(s) signed & dated federal tax returns for the past 3 years with all schedules & W-2s
- Borrower(s) three most current and consecutive months of bank statements Gift letter and evidence of donor availability of funds (if applicable)
- For self-employed borrower: a) copies of borrower’s Federal Income Tax Returns (both individual return and business returns) that were filed with the IRS for the past three years with all schedules; b) YTD profit & loss statement; and c) copies of all invoices and payments made to the borrower as a part of self-employment in the current calendar year (if applicable)

B. Lottery Process

Borrowers that submit complete packets will be placed in a lottery and will have an opportunity to reserve DALP funds towards down payment if they are selected and meet the eligibility requirements.

The following guidelines shall be applicable to the lottery process for all DALP Borrowers.

- At least forty five (45) calendar days prior to a lottery, MOHCD will start to accept complete Pre-Approval Application packets.
- Complete packets received by the application lottery deadline will receive a numbered lottery ticket whose twin ticket shall be entered in MOHCD's electronic system for the lottery. Incomplete packets will not be entered into the lottery.
- At least three (3) business days before the lottery, MOHCD will generate a list of all applicants that will be included in the lottery. The list will also indicate the applicants who are First Responders and Educators (see Section 6.3C below for more information).
- The lottery for DALP Reservations shall be held in a public, accessible location that is arranged and paid for by MOHCD. Applicants do not need to attend the lottery.
- At the lottery, MOHCD will use the electronic system to randomly assign a lottery rank number to each applicant.
- Applications shall not be reviewed for eligibility before the lottery but only after the lottery ranking has been finalized; applications are reviewed in the order of their lottery ranking numbers until all DALP funds are exhausted.
- Lottery results shall be posted on the MOHCD website but shall not include the names of applicants but only the lottery ticket numbers. The results of lotteries with 10 or fewer applicants may be announced by the MOHCD to each applicant in addition to posting to the MOHCD's website.
- MOHCD reserves the right to cancel any lottery if MOHCD does not receive a sufficient number of applications to reserve all DALP funds in a fiscal year and will process all applications in the order received.

C. Lottery Pools

Once the lottery rank numbers are assigned, the applications are grouped into three pools: First Responder Downpayment Assistance Loan Program (FRDALP) Pool, Educators-DALP Pool, and Downpayment Assistance Loan Program (DALP) pool. First Responder applicants in the FRDALP pool will be reviewed first. Next will be Educator applicants in the Educators-DALP pool, followed by the applicants in the general DALP pool.

First Responder and Educator applicants who are not selected in the lottery under the FRDALP and Educators-DALP pools can still be considered in the general DALP lottery pool under the DALP funds if they meet the DALP requirements including the AMI limits of the funding sources. In addition, First Responder and Educator applicants must submit Letter of Employment from their employer to prove eligibility for the FRDALP or Educators-DALP program (see FRDALP and Educators-DALP Program Manuals for eligibility requirements).

D. Reservation Review and Confirmation

MOHCD will review and process the Pre-Approval applications adhering to the rank order of the lottery list, and send a written response to approve or deny the pre-approval application and requested Reservation within 10-15 business days upon receipt of the lottery results. Processing time may vary depending on the volume of applications received and the complexity of the loan. If a Borrower's income and assets meet the Program criteria, MOHCD will issue a pre-approval letter and initially **reserve the DALP funds for up to sixty (60) days**. However, if all DALP funds have been encumbered during a fiscal year, Borrower will be placed on a waitlist (described below) and informed by MOHCD. If a Borrower's application for pre-approval is disqualified after all reconsideration processes have been completed (see Section 8.1B), the Borrower may submit a new Pre-Approval application with new information (see Section 8.2 for allowable changes), and will be placed on the waitlist.

E. Reservation Timeframe

1. **Purchase Period (60 Calendar Days).** During the 60-day period, a pre-approved Borrower must enter into a contract of sale to purchase a Principal Residence (sales contract). Upon execution of a sales contract, Borrower must immediately notify MOHCD and deliver a copy of the fully executed sales contract to MOHCD. The Reservation will be extended from the date of the sales contract for thirty (30) days. A pre-approved Borrower who has entered into a sales contract must immediately work with his or her Lender on submittal of the Lender's DALP loan packet to MOHCD. If a pre-approved Borrower fails to enter into a sales contract by the end of such 60-day period, the Reservation will be terminated, and the reserved DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist. After termination of a Reservation, a Borrower must submit a new Reservation application packet to MOHCD and will be processed as an entirely new application in the order received but after the lottery ranking list.

2. **Lender DALP Loan Submittal Period (30 Calendar Days).** Within thirty (30) calendar days following the execution of a sales contract between a Borrower and a seller, the Lender must submit a complete DALP loan packet to MOHCD (see Section 7 for all required documents). If a sales contract has been fully executed prior to issuance of DALP pre-approval, the Lender is required to submit the Borrower's DALP loan packet within thirty (30) calendar days following the DALP pre-approval. Updated income and assets documents must be submitted. If the Lender fails to submit the Borrower's DALP loan packet within the 30-day period, the Reservation will be terminated, and the reserved DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist.

3. **MOHCD Review Period (10 Business Days).** Upon submission of a complete DALP loan packet, the Reservation will be extended up to ten (10) business days during MOHCD's review.

4. **Loan Commitment Period (30 Calendar Days).** Within ten (10) business days of receipt of a complete Lender DALP loan packet, MOHCD will issue (i) a Commitment Letter that expires after thirty (30) days ("Commitment Expiration Date") if the loan is approved by MOHCD, or (ii) a disqualification letter if DALP loan application is not approved by MOHCD. If the loan is approved, the Commitment Letter must be reviewed, signed and dated by all Borrowers and returned to MOHCD within five (5) business days from date of issue. The Commitment Letter will extend the Reservation until the Commitment Expiration Date, and the loan must close prior to or on the Commitment Expiration Date. If Borrower receives a disqualification letter or does not close the loan by the Commitment Expiration Date, the reserved DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist.

F. Reservation Waitlist

If the demand for DALP funding exceeds the supply of funds for Reservations, a waitlist will be created and maintained until all DALP funds have been disbursed, and no further funds are anticipated in the fiscal year. The waitlist will be maintained in the lottery ranking order of Reservation applications, and applicants will be drawn in such order for processing as funds become available.

Pre-Approval Applications submitted after the lottery application deadline, or re-submission of Pre-Approval applications where the previous pre-approved applications are disqualified or expired, will be placed in the order received but after the lottery ranking list.

Placement on the waitlist does not mean approval of a Reservation by MOHCD. Qualification for a DALP loan will be evaluated at the time applicant is selected from the waitlist for processing.

In order to ensure a current and accurate waitlist, applications on the waitlist do not carry over from year to year. Each July MOHCD begins a new DALP open application process. As such, the waitlist will only be valid until the last day that DALP funds are exhausted for the applying year.

G. Reservation Extensions

Upon Borrower's written request, MOHCD may grant no more than **one** (1) extension of up to thirty (30) days for a Reservation if there are extenuating circumstances that are beyond the Borrower's control determined by MOHCD in its sole discretion.

H. Extension Procedures

In order for MOHCD to consider extending a DALP pre-approval, the applicant must be able to document that they are actively searching for houses. If Applicant requests a 30-day extension of the pre-approval period, the following must be provided:

- A signed, written request explaining why you need an extension to enter into a purchase contract;
- Copies of all the executed California Association of Realtors standardized Purchase Offers including any addendums, counter offers and denials for homes that were actively pursued during the pre-approval period.
- Listing Agents and Selling Agents' contact information for the properties that the applicant entered into a purchase contract.

If the applicant can document that they have made a minimum of 4 viable offers during the 60-day pre-approval period, MOHCD may consider a 30-Day extension of your DALP pre-approval. MOHCD must receive these documents at least 5 business days prior to the pre-approval expiration date.

SECTION 7 – DALP LOAN SUBMISSION

Within thirty (30) calendar days following the execution of a sales contract, the Lender must submit a complete DALP loan packet to MOHCD. If the Lender fails to submit the Borrower's DALP loan packet within such 30-day period, the Reservation will be terminated, and the reserved DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist. This section describes Borrower's Responsibilities, Lender's Responsibilities and the City's responsibilities. No matter if the documentation has been submitted previously in the Borrower's Pre-Approval Application packet, the Lender is required to submit all required documents as a complete packet (see below for all required documents).

7.1 Borrower's Responsibilities

Borrower's responsibilities include ALL of the following:

- Completes Verification of Homebuyer Education Requirements through one of MOHCD-approved housing counseling agencies.
- Obtains a first mortgage pre-approval from a participating Lender.
- Submits a complete Pre-Approval Application Packet.
- Enters into a purchase agreement with a seller within the Reservation Timeframe.
- Works with the Lender on submittal of the Lender's DALP Loan Packet.
- Provides a signed and dated DALP Loan Application Form (LOAN-1).
- Provides a signed and dated Homeownership Counseling Consent Form.
- Provides a signed and notarized copy of First Time Homebuyer Affidavit.
- Provides a signed and notarized copy of Income Tax Affidavit.
- Provides a signed and notarized copy of Occupancy Affidavit.
- Provides a signed and notarized copy of Self-employed Affidavit if applicable.
- Provides a signed and notarized copy of Unemployed Affidavit if applicable.
- Provides a signed and notarized copy of the General Release and Waiver of Liability.
- Provides a copy of Verification of Completion of Homebuyer Education dated within 12 months.
- Provides a copy of Borrower(s) government-issued photo Identification Card.
- Provides a written verification of employment (VOE).

- Pays non-refundable application fee in cashier check; payable to the City and County of San Francisco. Pay only the Mortgage Credit Certificate (MCC) fee if DALP program will be combined with MCC (see website for current fee).
- Provides income verification documentation as required by the guidelines to establish program eligibility.
- Self-employed borrower - provides a signed and notarized copy of Self-Employed Affidavit, and:
 - a) Copies of borrower's Federal Income Tax Returns (both individual returns and in some cases, business returns) filed with the IRS for the past three years with all applicable schedules attached;
 - b) YTD Profit & loss statement; and
 - c) Copies of all invoices and payments made to the borrower as a part of self-employment in the current calendar year (if applicable).
- Signs a copy of the City's loan Commitment Letter indicating acceptance within five (5) business days, upon approval of a DALP loan.

7.2 Lender's Responsibilities

Lender's responsibilities include ALL of the following:

- 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-middle income homebuyers.
- Loan Officers will acquire a password from MOHCD after satisfying lender training to access the DAHLIA system.
- Lender receives an application from a borrower who has undergone counseling from a HomeownershipSF Counseling Agency.
- If a Lender receives an application from a borrower who does not possess a Verification of Homebuyer Education Completion, Lender will refer borrower to a HomeownershipSF counseling agency to complete the workshop requirement 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.
- Lender performs standard Lender underwriting process.
- Lender collects applicable borrower documents and uploads complete loan package application to DAHLIA database where MOHCD staff can intake for completeness. Incomplete applications will be deleted after 48 hours.
- Lender must submit a complete DALP loan packet (see below for all required documents) to MOHCD within thirty (30) calendar days following the execution of a sales contract between a Borrower and a seller (see below for all required documents).
- Lender acknowledges ten (10) business day time restraint required by MOHCD upon receipt of a complete loan package to process, review, and underwrite a DALP loan.
- **Lender further acknowledges that** MOHCD requires an additional five (5) business days to fund all DALP loans from the time of approving the closing 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. **Loan packages received by MOHCD containing Purchase Contracts with less than 15 business days remaining to close will be returned to the Lender for contract extension.**

Lender must submit a complete DALP loan packet to the City electronically via DAHLIA as follows:

- Downpayment Assistance Loan Program Transmittal Form
- Non-refundable cashier's check for DALP or MCC application fee only, if combining MCC program with DALP. See website for current fees. (Please deliver the check along with Transmittal Form to MOHCD)
- Downpayment Assistance Loan Program Application Form (LOAN-1)
- Lender's Certification of Borrower Eligibility (LOAN-2)
- First Time Homebuyer Affidavit
- Homeownership Counseling Consent Form

- Income Tax Affidavit
- Occupancy Use Affidavit
- Self-Employed Affidavit (if applicable)
- Unemployed Affidavit (if applicable)
- General Release and Waiver of Liability
- Borrower(s) three most current & consecutive pay stubs
- Borrower(s) state-issued photo Identification Card
- Verification of Employment (VOE)
- Borrower(s) Federal Income Tax Returns for the past three years with all applicable schedules (signed and dated) and W-2s
- Profit and Loss Statement (signed & dated, if applicable)
- Signed IRS Form 4506-T
- Borrower(s) last three years of transcripts of tax returns
- Borrower(s) three most current & consecutive months of Bank Statements
- Gift Letter and evidence of donor availability of funds (if applicable)
- Copy of borrower's credit report
- Verification of Homebuyer Education (within last 12 months)
- Ratified Purchase Agreement (including all counter offers and addendums)
- Preliminary Title Report
- Fair Market Appraisal
- General Home Inspection Report
- Pest Control Inspection Report
- Wire Instructions
- Receipt for Escrow Deposit
- First Residential Mortgage Loan Application- Form 1003 (signed and dated)
- Underwriting Transmittal Summary- Form 1008
- First Loan Approval Commitment
- Loan Estimate or Closing Disclosure
- Estimated Master Settlement Statement
- Proof of fund to close with a copy of cashier's check or wire transmittal

7.3 City Responsibilities

Upon receipt of a complete DALP loan packet, the City's responsibilities include ALL of the following:

- Reviews Pre-Approval application packets adhering to the rank order of the lottery list, and send a written response to approve or deny the pre-approval application and requested Reservation within 10-15 business days upon receipt of the lottery results.
- Reviews Lender loan packets via DAHLIA to ensure completeness of forms and substantiating documentation.
- Underwrites DALP loans to determine Program eligibility.
- Issues (i) a Commitment Letter that expires after thirty (30) days ("Commitment Expiration Date") if the loan is approved by MOHCD, or (ii) a disqualification letter if DALP Loan application is not approved, within ten (10) business days of receipt of a complete packet.
- Emails the closing documents to the title company, upon receipt of the signed Commitment Letter, draft of Grant Deed and estimated Settlement Statement (Borrower must sign Commitment Letter in the presence of MOHCD staff within five (5) business days from date of issue).

The following closing documents must be submitted digitally via DAHLIA to MOHCD for review before funding (with the **exception** of the executed Original City Note):

- The executed original City Notes (DALP Note);
- Copy of the signed City Escrow Instructions;
- Certified copy of the executed City notes (DALP Note);
- Certified copy of the executed City deeds (DALP Deed);
- Certified copy of the Requested for Copy of Notice of Default;

- Certified copy of the Grant Deed;
- Certified copy of the First Deed of Trust;
- Certified copy of the First Note;
- Certificate of Homeowner Insurance Policy; or HO6 Insurance Policy;
- Estimated Master Settlement Statement;
- Any other liens behind the City loans.

Upon receipt of the borrower's executed original City promissory note and copies of documents described above from escrow:

- Funds the DALP loan within five (5) business days from the time of approving the closing documents.
- Closes the DALP loan on or before the 30-day Commitment Expiration Date. If for any reason, escrow cannot close within the Commitment period, please notify MOHCD immediately.
- Monitors Borrowers throughout the life of the loan to ensure compliance with occupancy requirements.

SECTION 8 – RESERVATION RESTRICTIONS AND CHANGES

8.1 Reservation Restrictions

A. Duplicate Reservations Prohibited

Only **one (1)** Reservation is permitted per Eligible Household. Duplicate Reservation applications from one Eligible Household, whether with one Lender or multiple Lenders, will automatically result in the City's disqualification of all applications. Borrowers are encouraged to shop around to find the best participating Lender that suits their needs, but must choose only one Lender in connection with the DALP Program.

B. Disqualified Reservations and Request for Reconsideration

1. **Disqualified Pre-Approval Applications.** If the Borrower's pre-approval application is disqualified due to eligibility or affordability issues, the Borrower may request reconsideration of a disqualified application by submitting new information or documentation contesting the disqualification to MOHCD. Applicants who have included an email address in their application will be notified of disqualification by email and must submit a request for reconsideration within three (3) business days from the date of the disqualification email.
2. Applicants who do not include an email address in their application will be notified of disqualification through the US Postal Service and must submit a request for reconsideration within five (5) business days from the date of the disqualification letter is postmarked.

MOHCD will respond within seven (7) business days from the date of the reconsideration request. MOHCD will set aside the requested Reservation until all reconsideration processes have been completed.

3. **Disqualified DALP Loan Applications.** If the loan is disqualified due to eligibility or affordability issues, the reservation shall not be cancelled until all reconsideration processes have been completed. If the Borrower fails to submit new information or documentation contesting the disqualification to MOHCD within three (3) business days from the date of the disqualification letter, the reserved DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist.

C. Transfers

MOHCD will not allow a transfer of a reservation from one eligible Borrower to another. However, MOHCD may allow a loan transfer from one approved Lender to another after the DALP

submission (either before a Commitment or after a Commitment has been issued), the new Lender will be required to verify that the applicant meets the Program requirements by resubmitting the Lender's DALP loan packet to MOHCD for review and approval. The transfer will be recognized and approved by MOHCD only after written notification is received from the original Lender. The reservation committed to an eligible Borrower may not be transferred from one property to another, except as a result of an unsatisfactory home inspection or failure of the seller to proceed with the sale. MOHCD may, in its sole discretion, grant one extension of time as set forth in Section 6.2G.

8.2 Changes

1. Once a DALP loan has been reserved, major changes are prohibited except in unusual circumstances approved by MOHCD, in its sole discretion.

The Borrower and the Lender must verify the completeness and accuracy of the application before it is submitted to MOHCD. Under no circumstances will MOHCD permit any changes that will affect the Borrower's ratios, household size, income and assets for qualifying purposes. Any request for change in loan amount shall be subject to availability of funds and MOHCD's approval in its sole discretion. See Section 3.2A for the prohibited DALP loan amount changes.

2. To request a change to a reserved DALP loan, the Lender must request in writing any change to a Borrower's Reservation and provide specific reason(s) for such changes along with all necessary documentation to MOHCD. The request will be reviewed and a response returned to the Lender by email.

Allowable changes include: (1) the removal of an applicant due to death or dissolution of marriage or domestic partnership; (2) the addition of an applicant's Spouse or Domestic Partner or a new Household member in the case of an adoption or new guardianship; (3) an update of income qualification, such as a new job or additional household income; or (4) correction of technical errors, such as current phone number or other non-qualifying information. **MOHCD has sole discretion to approve the changes. If the first mortgage loan amount, interest rate, or loan term changes before close of escrow, additional documents must be submitted to the City for reassessment.**

8.3 Cancellation of Funds and Commitment Expirations

The Lender and the Borrower are respectively responsible for immediately cancelling a Reservation if the loan will not close. Any funds allocated to the Borrower will be made available to the next qualified

Borrower on the waitlist. If the Borrower cancels or withdraws a Reservation or the Lender denies the Borrower's first mortgage loan, or the loan will not close by the Commitment Expiration Date, MOHCD must be contacted within 48 hours by the Lender.

General Guide

MOHCD is relying on the Lenders and Borrowers to provide correct information on applications. This reliance is based upon the Lender certifications about reasonable investigation of the Borrower and statements by the borrower that facts are correct. Each Lender and Borrower provide information and signed certifications, which are specific about the information provided and its correctness. False statements or fraud made in connection with A DALP application may constitute a federal violation punishable by a fine and/or disqualification of the application, or if DALP funds have been released prior to discovery of the false statements or fraud, immediate recalling of the DALP loan, which may be in addition to any criminal penalty imposed by law. Therefore, MOHCD encourages the Lenders and the Borrowers to provide accurate information and ensure that applications are within the DALP eligibility requirements.

APPENDIX A: DALP PROCESSING FLOWCHART

| Steps | Actions |
|---|--|
| 1. Request a Reservation (Pre-Approval) | <p>Borrower submits a signed complete Pre-approval Application Packet via a secured email link provided by MOHCD, or delivery by mail or in person (as described in Section 6.2A), before the application lottery deadline.</p> |
| 2. Confirm a Reservation | <p>MOHCD will place all complete Pre-Approval Application packets received by the application lottery deadline in the lottery. A lottery will be conducted to determine the rank order (see Section 6.2B and 6.2C for Lottery Process and Lottery Pools for more information).</p> <p>MOHCD will review the applications adhering to the rank order of the lottery list, and send a written response to approve or deny the requested Reservation within 10-15 business days upon receipt of the lottery results. Processing time may vary depending on the volume of applications received and the complexity of the loan. If a Borrower's income and assets meet the Program criteria, MOHCD will issue a pre-approval letter and reserve the DALP funds for up to sixty (60) days.</p> |
| 3. Execute a Sales Contract | <ul style="list-style-type: none"> ➤ During the 60-day period, a pre-approved Borrower must enter into a contract of sale to purchase a Principal Residence. ➤ A pre-approved Borrower who has entered into a sales contract must immediately work with his or her Lender on submittal of the Lender's DALP loan packet to MOHCD within 30 calendar days. <p>Note: if by the end of the 60-day period, a pre-approved Borrower fails to enter into a sales contract but is still interested in applying for the Program, pre-approved Borrower can requests a 30-day extension of the pre-approval period (see Section 6.2 (H) for Extension Procedures).</p> |
| 4. Submit a DALP Loan Packet | <p>Lender must submit a complete DALP loan packet to MOHCD through DAHLIA (see Section 7.2 for all required documents), within thirty (30) calendar days following the execution of a sales contract between a Borrower and a seller.</p> <p>Updated income and assets documents must be submitted (see Section 3.2H for the maximum age of documents allowable).</p> <p>Note: Loan packets received by MOHCD containing Sales Contracts with less than 15 business days remaining to close will be returned to the Lender for contract extension.</p> |
| 5. Issue a Commitment | <p>MOHCD will process the Lender's DALP Loan application, and issue (i) a Commitment Letter that expires after thirty (30) days ("Commitment Expiration Date") if the loan is approved by MOHCD, or (ii) a disqualification letter if DALP Loan application is not approved by MOHCD.</p> <ul style="list-style-type: none"> ➤ Borrower must sign Commitment letter in the presence of MOHCD staff within five (5) business days from date of issue. ➤ Commitment letter has a 30-day expiration date. |
| 6. Fund a DALP Loan | <p>MOHCD will fund the DALP loan within five (5) business days from the time of approving the closing documents.</p> |
| 7. Close a DALP Loan | <p>The closing must occur on or before the Commitment Expiration Date.</p> |

APPENDIX B: BMR DALP PROGRAM GUIDELINES

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 ownership units are typically restricted to households earning either 80% to 120% of AMI.

Financial assistance made available under the Below Market Rate Downpayment Assistance Loan (**BMR DALP**) Program may only be used to cover the need-based down payment assistance for low and moderate income households who otherwise would not be able to purchase a BMR unit. The City and County of San Francisco (**the “City”**), Mayor’s Office of Housing and Community Development (**MOHCD**) will only extend loan funds when is necessary for a Borrower to qualify for an affordable mortgage, in conjunction with a BMR purchase.

BMR DALP applications for all Eligible Borrowers are accepted on a first-come, first-served basis and are always subject to funding availability. **No Pre-Approval is required on BMR DALP loans.**

In accordance with the Program guidelines and its purpose, the participating lenders shall assume the following roles and responsibilities:

- Lender determines the Borrower’s financial ability to purchase the desired property.
- Lender is to make every effort to qualify the Borrower for the maximum financing on the first mortgage.
- Lender submits the Needs Assessment Worksheet and evidence of financing the maximum 1st mortgage loan amount when submitting an application for a BMR DALP loan.

Other than specified herein, **all other BMR and DALP program requirements shall apply.** Refer to the BMR program manual for details.

1. **Maximum Income Limits:** A homebuyer purchasing a BMR with Household Income up to 120% Area Median Income may apply for BMR DALP.
2. **Maximum Loan Amount:** The maximum loan available to a homebuyer using the BMR DALP to purchase a BMR shall be the lessor of: 1) Amount of need established by the Needs Assessment Worksheet (based on maximum financing); or 2) Maximum BMR DALP loan amount, up to 15% of the sales price. **Under no circumstances will the City provide funds to a homebuyer in excess of what is needed to close the loan.**
3. **Liquid Assets:** Prior to purchase, Borrower can have up to \$200,000 in Liquid Assets. If a Borrower’s Liquid Assets exceed \$200,000 at the time Household Income is determined, Borrower will not qualify for a BMR DALP loan. If Borrower’s Liquid Assets are less than or equal to \$200,000 at the time a BMR is purchased, Borrower may retain a maximum of \$15,000 total in Liquid Assets and must apply any Liquid Assets in excess of \$15,000 toward the purchase of the BMR unit.
4. **LTV and CLTV:** The minimum first mortgage Loan to Value (LTV) cannot be less than 50% of the purchase price or appraised value, whichever is less. The maximum Combined Loan to Value (CLTV) cannot exceed 95%, which includes the first mortgage, BMR and BMR DALP.
5. **Minimum Down payment Requirements:** The Borrower must contribute a minimum of five percent (5%) of the sales price toward the down payment of the BMR unit. Of the total 5%, 3% must come from the Borrower’s own funds from a verifiable source (held in a financial institution), and the remaining 2% can come from gifts or grants. Borrower must have sufficient funds to meet the required down payment plus necessary reserve funds.

6. **Layered Financing:** When downpayment assistance loan programs are used in connection with the purchase of a Below Market Rate (BMR) unit, the borrower must meet all of the other eligibility requirements for the BMR program. In the case of any conflicting requirements, the more restrictive will apply. For example, if the DALP is used on a BMR unit, the maximum CLTV 95% required by the BMR program shall prevail.
7. **Lien Position:** Unless pre-approved by MOHCD, the BMR DALP loan must be in a junior lien position behind the first mortgage and BMR lien.
8. **Repayment:** Unless a default occurs, the BMR DALP is deferred for thirty (30) years from the date of the initial purchase. As of the maturity date of loan term or closing date of the resale, the loan is due and payable. The payoff amount due from Borrower is (i) the principal amount of the loan plus (ii) a proportional share of the appreciation of the property. The Share of Appreciation is defined as the increase in the affordable resale value (as determined by MOHCD or its successor) of the BMR, if any, from the date of Borrower's purchase of the BMR through the Maturity Date. The Share of Appreciation has been determined by dividing the Principal Amount by the affordable resale value of the BMR. BMR restrictions still remain after the BMR DALP loan is paid off.

9. Eligible Uses of BMR DALP Funds

- BMR DALP funds can be used to contribute to the need-based down payment for the Borrower's household who otherwise would not be able to purchase a BMR.
- BMR DALP funds can be used to enable the Borrower to meet the maximum debt-to-income ratio established making the mortgage payment affordable to the Borrower.
- BMR DALP funds cannot be used as a cushion factor to make the loan more appealing to the Borrower and/or the lender.
- BMR DALP funds cannot be used to pay for upgrades, improvements and repair costs.
- BMR DALP funds cannot be used for financing of storage units, additional spaces, and/or second parking spaces.
- BMR DALP funds cannot be used to pay down the first mortgage principal, debts or liens.
- Cash disbursed to the Borrower cannot exceed \$250 at close of escrow. Any excess cash must first be applied towards the reduction of BMR DALP loan amount.

In order to avoid cash back issues at closing, lenders should re-calculate the Needs Assessment Worksheet where applicable after receiving an estimated closing statement. Adjustments should be made to the loan amount if necessary prior to releasing loan documents. If in doubt, lenders shall reduce the BMR DALP loan amount slightly than risk the chance of the Borrower receiving cash back.

10. **Refinance/Subordination:** BMR Borrowers who have BMR DALP loans from MOHCD may not receive any cash from refinancing until their BMR DALP loan is repaid in full. In addition, repayment of the BMR DALP loan may be required on a term-reduction refinance with an increase of mortgage payment, if the refinance meets the following criteria: a) the current appraised value or resale price of the subject property is sufficient to support a combined 1st and City cash loan, and b) the borrower can obtain an affordable loan from a lender supporting the amount. In this case, the Borrower will be required to pay off the City cash loan and a subordination agreement will not be approved.
11. **Loan Prepayment:** BMR Borrowers may prepay their first mortgage loans but Borrowers who also have BMR-DALP loans from the City may be required to repay the BMR DALP loan at that point.

APPENDIX C: EDUCATORS-DALP PROGRAM GUIDELINES

The City and County of San Francisco (the “City”), Mayor’s Office of Housing and Community Development (MOHCD) administers the Educators Downpayment Assistance Loan Program (**Educators-DALP**). The Educators-DALP provides down payment assistance loans to educators currently employed with the San Francisco Unified School District (SFUSD) with the purchase of their first home in San Francisco.

Other than specified herein, **all other DALP program requirements shall apply**. Refer to this Manual for a detailed description of the DALP program requirements and procedures.

1. **Educators-DALP Borrowers:** Borrowers must be educators currently employed with the San Francisco Unified School District (SFUSD). SFUSD Educators are all United Educators of San Francisco (UESF) members, including teachers, paraprofessionals, and other certificated staff (e.g., counselors, deans, nurses, speech pathologists, psychologists, behavioral analysts, social workers, Special Education (SPED) Content Specialists and librarians), and also including those who work in the SFUSD Early Education department. At the time of application, the Borrower must provide a written verification of employment from the SFUSD.
2. **First Time Homebuyer Requirements:** No member of the applicant household may have owned any interest in a residential unit in San Francisco during the three-year period.
3. **Maximum Household Income:** Educators-DALP funds are limited to providing loans to eligible First Time Homebuyer households whose Household Income of all members at the age of 18 and older do not exceed 200% of the Area Median Income (AMI) for the SFMSA as published by MOHCD. The amounts are adjusted on an annual basis. As of April 1, 2018, the income limits are as follows:

| Persons Per household | One | Two | Three | Four | Five |
|-----------------------|-----------|-----------|-----------|-----------|-----------|
| 200% AMI | \$165,800 | \$189,400 | \$213,100 | \$236,800 | \$255,700 |

4. **Household Size Compatibility:** There is no requirement for the size of a household to be compatible with the size of the unit being purchased under the Educators-DALP program.
5. **Pre-and Post-Purchase Assets:** There is no pre-purchase Liquid Assets requirement. Combined household Liquid Assets after purchase of the property must not exceed \$60,000. Borrower must apply any Liquid Assets in excess of \$60,000 toward the purchase of the property.
6. **Layered Financing:** The Educators-DALP loan may be layered with the Teacher Next Door (TND) program. The Borrower must meet all of the other eligibility requirements for the used programs. In the case of any conflicting requirements, the more restrictive will apply. Unless approved by MOHCD, the Educators-DALP loan must be in second lien position behind the first mortgage, and TND loan in third lien position behind the Educators-DALP loan.
7. **Application Procedures:** To obtain an Educators-DALP loan, a Borrower must first apply for pre-approval of an Educators-DALP loan and request a reservation of funds. See Section 6, 7, 8 of this Manual for details.

APPENDIX D: FIRST RESPONDERS DALP PROGRAM GUIDELINES

The City and County of San Francisco (the “City”), Mayor’s Office of Housing and Community Development (**MOHCD**) administers the Educators Downpayment Assistance Loan Program (**First Responders-DALP**). The First Responders-DALP provides down payment assistance loans to active uniformed, sworn members of the San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD), and San Francisco Sheriff’s Department (SFSD).

Other than specified herein, **all other DALP program requirements shall apply**. Refer to this Manual for a detailed description of the DALP program requirements and procedures.

First Time Homebuyer Requirements: No member of the applicant household may have owned any interest in a residential unit in San Francisco during the three-year period preceding the date of the FRDALP Pre-Approval Application.

Maximum Household Income: Borrower’s Household Income cannot exceed 200% of the Area Median Income (AMI) for the SFMSA as published by MOHCD. The amounts are adjusted on an annual basis. As of April 1, 2018, the income limits are as follows:

| Persons Per household | One | Two | Three | Four | Five |
|------------------------------|------------|------------|--------------|-------------|-------------|
| 200% AMI | \$165,800 | \$189,400 | \$213,100 | \$236,800 | \$255,700 |

FRDALP Loan Amount: The maximum FRDALP loan amount is up to \$375,000. The qualifying loan amount will be the minimum amount necessary based on Borrower’s financial needs in the purchase of an eligible dwelling.

FRDALP Loan Term: The term of the FRDALP is 30 years. The FRDALP is a no interest, no monthly payment, and deferred loan due upon sale, rent, or title transfer of the property.

Household Size Compatibility: There is no requirement for the size of a household to be compatible with the size of the unit being purchased under the FRDALP program.

Pre-and Post-Purchase Assets: There is no pre-purchase Liquid Assets requirement. Combined household Liquid Assets after purchase of the property must not exceed \$60,000. Borrower must apply any Liquid Assets in excess of \$60,000 toward the purchase of the property.

Application Procedures: To obtain an Educators-DALP loan, a Borrower must first apply for pre-approval of an Educators-DALP loan and request a reservation of funds. See Section 6, 7, 8 of this Manual for details.