MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT AS SUCCESSOR TO THE REDEVELOPMENT AGENCY OF THE CITY & COUNTY OF SAN FRANCISCO

LIMITED EQUITY HOMEOWNERSHIP PROGRAM

Loan Disclosure Information

June 2016

TABLE OF CONTENTS

I M P O R T A N T

NOTE TO THE READER

The purpose of this document is to explain the City's Limited Equity Homeownership Program ("Program"). Homes sold through this Program are subject to price controls at resale, as well as other terms and restrictions that affect your rights as a homeowner. Some of the terms and provisions are complex, and require that you thoroughly understand them prior to your purchase of a home. **IF YOU DESIRE TO PARTICIPATE IN THE PROGRAM AND PURCHASE A HOME, YOU MUST ATTEST TO YOUR FULL UNDERSTANDING OF AND AGREEMENT TO ALL THE PROGRAM'S TERMS AND CONDITIONS BY SIGNING BELOW PRIOR TO CLOSING ESCROW.**

I, the undersigned, hereby acknowledge and accept all the terms and conditions contained in the Declaration of Resale Restrictions and Option to Purchase, the Promissory Note Secured by a Deed of Trust, and the Short Form Deed of Trust and Assignment of Rents ("City Documents"), all of which I have agreed to comply with in return for purchasing my home at a below-market-rate price. I acknowledge that a staff member of the City and County of San Francisco ("City") explained the terms and provisions of the City Documents to me, and that I have had a chance to review this Limited Equity Homeownership Program Loan Disclosure Information document, which further explains the City Documents. I have also been provided enough time to seek an independent legal opinion about the City Documents and my purchase of the home, if I so chose.

I understand that by my execution of the City Documents, I agree that the resale price of my home will be restricted to a price that is affordable to a household of a predetermined size, earning a pre-determined percentage of Area Median Income ("AMI"), based on figures published by the Mayor's Office of Housing, based on data published by the U.S. Department of Housing and Urban Development (or any government City subsequently assuming this responsibility). I understand that the City will determine the resale affordable price applicable to my home when I notify the City of my intent to sell. I understand that fair market value will not determine the resale price of my home.

I further understand that the City's calculation of the resale affordable purchase price for my home will consider, in addition to the current income for a pre-determined AMI level, an interest rate which is the higher of 1) the 10-year rolling average of rates as calculated by the City (or its successor) and based on data provided by Fannie Mae, Freddie Mac, or an equivalent, nationally recognized mortgage lending institution, or 2) the current, commercially reasonable rate available through an City-approved lender, as well as other current housing costs, such as insurance, HOA dues, and taxes. I know that any proceeds I receive from the sale of my home will be affected by the value of these factors, since they will be used to calculate the resale affordable purchase price of my home.

I understand that the City imposes resale restrictions on homes that it subsidizes so that it can provide homeownership opportunities to many generations of low- and moderate-income families over time and that the equity I will be able to build in my home will be limited so that the Program is available to the next purchaser of my home. I understand that my ability to purchase my home at an affordable price is contingent upon my agreement to comply with the resale controls and Program restrictions.

PROPERTY ADDRESS: ADDRESS, San Francisco, CA ZIP CODE

SIGNED: ________________________ DATE:_____________________

SIGNED: ________________________ DATE:_____________________

PROGRAM SUMMARY

- The purpose of the City's Limited Equity Homeownership Program ("Program") is to provide homeownership opportunities to low- and moderate-income households ("Eligible Buyers") who otherwise would not be able to purchase a home in San Francisco.
- To make homes affordable to Eligible Buyers, the City may sell land to developers at below-market-rate prices and/or provide construction funding. In return for this assistance, developers agree to sell the homes to Eligible Buyers. Eligible Buyers, in turn, purchase their homes at affordable prices and agree to comply with Program requirements.

- The City is able to offer the benefits of homeownership to many generations of Eligible Buyers through restrictions on resale prices, which limit the amount of equity that an Eligible Buyer is able to build. By limiting Eligible Buyers' equity, a given home can be resold at affordable prices again and again. Market fluctuations, which often result in prices beyond the affordability of low- and moderate-income households, do not affect limited equity resale affordable prices.

PROGRAM ELEMENTS

#1: *Eligibility*

To qualify as an Eligible Buyer, households must meet the following criteria:

- Household income (including income imputed from assets) within the AMI "target range" of low- to moderate-income buyers.
- Demonstrated ability to qualify for a mortgage, i.e., good credit, stable employment, and manageable debt.
- Savings available for a 5% down payment (up to 2% may be gift funds).
- First-time homeowner status.
- Commitment to use the property as the principal residence.

The San Francisco Mayor's Office of Housing publishes AMI levels for San Francisco annually, based on data published by the U.S. Department of Housing and Urban Development. The AMI target ranges that determine a household's eligibility to purchase will vary from development to development, based on the amount of subsidy provided by the City to the developer. The City will qualify all first-time homebuyers for both initial sales and for resales. Documentation of household size and income and assets, such as W-2s, tax returns, bank statements, and deferred income balance statements, is required.

#2: Affordable Purchase Prices

When developers set affordable purchase prices for units they sell, they use very specific information, as described below:

- AMI level: Developers in contract with the City are obligated to sell their units at prices affordable to households within a certain AMI "target range." For example, a developer in 2005 may be obligated to sell his/her units to households making between 75% and 100% of AMI. For a household of 3, this translates to incomes between $64,125 and $85,500.

- Household size: For the pricing calculation, the City assumes a household size of one person for a one-bedroom unit, and, for all other units, one person more than the number of bedrooms. For example, a household of three people is assumed for a two-bedroom unit, four people for a three-bedroom, and so on. (For occupancy, the City requires a minimum of one person per bedroom. For example, a single person can apply for a studio or one-bedroom unit only. A two- person household could apply for a studio, one- or two-bedroom unit.)33% "PITI": Principal, interest, taxes, and homeowners' insurance – total housing costs – are assumed to be 33% of a household's gross monthly income.
- First mortgage interest rate: the City's calculation assumes a fixed mortgage interest rate based on the higher of the following: 1) a 10-year rolling average of interest rates as calculated by the City, or 2) market conditions at the time the homes are offered for sale. The City will not permit a variable rate mortgage or an interest-only mortgage, as such financing instruments are contrary to the objectives of long-term affordability and stability of the first time homebuyer program.
- Owner down payment: The City assumes (and requires at a minimum) that the household will make a cash down payment of 5% of the affordable purchase price, 2% of which may be gift funds.

Once a developer knows, for each unit, what the applicable AMI level is, the household size, the cost of taxes and insurance, and the interest rate, s/he can set the affordable purchase price. For example, a two-bedroom unit assumes a household of three.

If the developer's obligation calls for pricing at an AMI level of 95% (with income eligibility up to a maximum of 100% of AMI), the three-person household's income would be $81,225 in 2005. 33% of that income level is $26,804, or $2,235 per month. This figure, $2,235, is the target total monthly payment for housing costs for all households buying at this income level. If the household's HOA dues were $400 per month, taxes were $235 per month, and personal property insurance was $50 per month, the total monthly income available to pay the first mortgage would be $1,550 per month (i.e., $2,235 - $400 - $235 - $50 = $1,550). Using a 7.5% interest rate on a 30-year, fixed-rate first mortgage, the supportable mortgage would be $221,680. Assuming a 5% down payment (since the first mortgage would cover 95% of the purchase price), the affordable purchase price would be $233,345.

#3: Resale Affordable Purchase Prices

When a household decides to sell its home, it notifies the City, and the City calculates the resale affordable purchase price, using the same AMI percentage and household size that were used to calculate the seller's affordable purchase price. To follow the example given above, the family of 3 earning 95% of AMI that bought its home for $233,345 in 2005 might decide to sell the home five years later. The City will determine the resale price by taking the income for a 3-person household at 95% of AMI in 2010 and limiting payments for PITI to 33% of gross monthly income. The calculation will use the higher of the current mortgage interest rate or the then current 10-year rolling average of rates, and current HOA, tax, and insurance costs, and it will assume a 5% down payment by the new Eligible Buyer. So, for example, if the ten-year average interest rate increased .5% between 2005 and 2010, AMI increased 15%, and taxes and insurance increased 5%, the resale affordable purchase price would be $265,395. After subtracting the cost of necessary repairs (if any) and closing costs, the seller would be entitled to the difference between the old affordable price and the new affordable price. The example is shown numerically below:

95% AMI, 3-person HH income, 2010 (2005 + 15%):	$93,410
33% of gross income:	$30,825
Per month:	$2,570
Monthly HOA dues, taxes & insurance, 2010 (2005 + 5%)	($720)
Monthly income available for 1st mortgage:	$1,850
Mortgage (assuming 8% interest, 30-yr fixed)	$252,125
5% Down payment:	$13,270
Resale Affordable Purchase Price:	**$265,395**

Resale Affordable Purchase Price:	$265,395
Closing costs (6%)	($15,925)
Repayment of full 1st mort + down payment:	($233,345)
Owner's new equity:	$16,125
Plus principal paid on the mortgage:	$11,235
Plus return of owner's down payment:	$11,665
NET RETURN TO OWNER:	**$39,025**

+ Amortized value of capital improvements, if any, and less any repair costs attributable to the owner.

By transferring this property from one 95% AMI household to another under the Program, the home remains affordable, the benefits of homeownership are passed along, and all owners have a chance to earn limited equity!

#4: Capital Improvements

As shown above, AMI levels and current housing costs such as interest rates and insurance costs determine affordable prices. Affordable purchase prices alone cannot, therefore, reflect improvements and upgrades that an owner has made to his/her unit, such as new floors and countertops. To avoid discouraging owners from improving their properties, the City will allow owners to recover the depreciated value of approved capital improvements.

To qualify, each capital improvement must meet certain criteria:

- It must be a permanent improvement.
- It must have a value greater than 0.5% but less than 10% of the affordable purchase price originally paid by the owner.
- It must have a useful life longer than 5 years after the owner sells the home.
- It must have been installed with all required permits and approvals.

Owners wishing to sell and recover a portion of the cost of capital improvements must give the City a list of capital improvements and the date installed or completed, with invoices or other verifying documentation, at least thirty (30) days before the property is sold or transferred. The City must approve the capital improvements (i.e., make sure they meet the criteria described above), and will allow owners to recover the approved, depreciated amount at escrow closing. The credit for each capital improvement is depreciated by a factor of 7% per year from the date of the capital improvement's completion. You are advised to maintain good records of any potentially eligible capital improvements.

#5: Minimum Resale Value

As described above, the resale affordable purchase price is subject to variable factors that fluctuate over time, such as mortgage interest rates, taxes, and insurance costs. Because of the variability of these factors, ***owners assume some risk when they purchase their homes!*** For example, if the interest rate used in the pricing calculation increases from the time of initial purchase to time of resale, and increases in AMI over that same time do not compensate for the interest rate increase, a resale affordable purchase price could actually be lower than the original price an owner paid. The City's use of the 10-year rolling average of interest rates is intended to minimize the interest rate risk at resale, but there is no guarantee that the available interest rates or the 10-year average will not increase over time. To further minimize the risk owners take when they participate in the Program, the City will increase the applicable AMI level on a resale, up to 120% of AMI, when the original AMI level applicable to that home does not result in a resale affordable price high enough to pay off the original value of the first mortgage.

<u>But owners still assume risk! Owners are solely responsible for:</u>

- Repair costs. When an owner notifies the City of its intent to sell, the City has the right to inspect the unit, determine if damage exists, and calculate the value of repair. If the owner does not satisfactorily make the itemized repairs, owners will be held responsible for repair costs at the close of escrow.

- Payments due on junior liens and first mortgage equity refinancing. The City will only increase a resale affordable purchase price to the original principal balance of the first mortgage and other approved senior liens. If the owner has refinanced the home and withdrawn equity, the owner is solely responsible for paying off the incremental value of the refinanced mortgage or new, junior liens.
- If the resale affordable purchase price produced using 120% of AMI is still insufficient to pay off the first mortgage, the owner is solely responsible for his/her mortgage debt beyond that adjusted resale affordable purchase price. Please note that the first mortgage lender will not release its lien unless the mortgage is repaid in full. If the first lender does not release its lien because the owner has not or cannot fully repay it, then the sale will be cancelled or the owner will be in default.

<u>#6: Owner Refinancing</u>

To protect its investment and to preserve the intent of the Program, the City must approve all refinancing agreements.

Owners can refinance up to the original value of their first mortgage in order to obtain a lower interest rate or withdraw principal paid down on the mortgage.

Owners may also refinance their homes to withdraw up to 50% of the difference between the resale affordable purchase price and their original affordable purchase price, for the following reasons only:

- To make capital improvements to the home
- To pay for post-secondary educational expenses of a household member

- To meet the cost of an owner's or owner's immediate family member's catastrophic illness
- To secure funds required to implement a marriage dissolution agreement or domestic partnership dissolution agreement.

The owner must submit documentation to the City verifying the use of funds for any of the four refinancing purposes above. Funds will not be released without evidence to the City's satisfaction.

#7: Permissible Transfers & Resales

Owners may only transfer their homes to other Eligible Buyers or to the City. Though each owner bears sole responsibility for finding an Eligible Buyer if s/he seeks to sell his/her unit, the City will attempt to assist owners in locating Eligible Buyers, whether through a mailing to interested persons, accessing a waiting list, or conducting a lottery. Once an owner identifies a potential buyer for his/her unit, only the City can certify that the buyer is actually an Eligible Buyer.

If an owner has conducted a good faith effort to sell his/her home and still cannot locate an Eligible Buyer after 150 days from the date s/he listed the property for sale, the City will authorize a 50% increase to the AMI level defining "Eligible Buyer" for that particular home. ("Good faith effort" means use of all standard marketing tools, such as a Multiple Listing Service listing, advertised open houses, and other, additional advertising.) For example, if an owner's good faith effort to find an Eligible Buyer at 80% of AMI failed after 150 days, s/he could renew the search and include as potential buyers households earning up to 120% of

AMI. The resale affordable purchase price would remain the same (i.e., based on the 80% AMI income), thus enhancing the home's marketability to the higher-income households.

#8: City Purchase Option

While the City may purchase the home as an Eligible Buyer (in a standard sale transaction), it retains an option to purchase the home in the event of owner default, under either the City Documents or the first mortgage.

#9: Owner Default and City Remedies

An owner is in default of the City Documents if any of the following occur:

- A transfer of the property in violation of the Declaration of Resale Restrictions and Option to Purchase;
- Use of the property other than as owner's principal residence (owners must certify that they occupy the home at least 10 months out of every 12 annually);
- Failure to pay required housing costs, such as taxes, homeowner dues, assessments, or insurance;
- Placement of any mortgages, liens or encumbrances on the property that the City has not approved;
- Any other violation of the City Documents; or
- A default on the first mortgage.

If an owner is in default and doesn't or can't cure the default within the times specified in the City Documents or first mortgage documents, the City can exercise its purchase option, commence an action for specific performance or an injunction to prevent an impermissible sale, foreclose on its deed of trust, and/or exercise any other remedy permitted by law.

#10: City Promissory Note and Deed of Trust

To protect its investment, the City requires that all owners execute a promissory note and deed of trust when they purchase their homes. Unlike standard promissory notes for conventional mortgages, the City promissory note has no face value and cannot be prepaid. Its purpose is to protect the City's investment if an owner defaults on the first mortgage or City obligations. An owner default "triggers" the promissory note and City deed of trust, which secures the promissory note against the property and is recorded to provide public notice of the owner's obligations under the Program. In the case of default, the promissory note states that the owner must pay the City the difference between the resale affordable purchase price and fair market value, in addition to any costs incurred by the City to enforce its rights and a default interest payment on the sum due. An independent appraiser will determine fair market value.

Financing for the 3-person, 95% AMI household can again illustrate the issue. This household had a resale affordable purchase price of $265,395. If they defaulted on their loan, and fair market value was, for example, $700,000, they would owe the City $434,605 (plus default-related costs) under the City's promissory note.

If an owner transfers his/her property according to the Program requirements and complies with all other City and first mortgage obligations, the City will simply terminate the promissory note and deed of trust at resale.

#11: Transfer by Marriage, Domestic Partnership, and Inheritance

If an owner marries or enters a domestic partnership, the spouse or partner can become a co-owner by executing an addendum to the City Documents. The addendum confers the same rights and obligations of the owner upon the spouse or partner.

Upon the death of a property owner or owners, the home can be transferred to an heir, as long as the heir is an Eligible Buyer approved by the City. If the heir does not qualify to occupy the home, as an Eligible Buyer, the home must be sold according to the terms of the City Documents, and the owner's proceeds will transfer to the owner's estate.

#12: Term

The term of the City Documents – or the period of time that resale restrictions and all other City obligations apply – is 45 years. At the end of the term, owners are obligated to pay to the City the difference between the resale affordable purchase price and fair market value (both as calculated at the time the term ends). In lieu of this payment, an owner may opt to renew his/her agreements with the City for an additional 45 year term.