

CITY AND COUNTY OF SAN FRANCISCO

MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT



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**First Responders Downpayment Assistance Loan Program
(FRDALP)**

October 2016

IMPORTANT NOTE TO THE READER

The purpose of this First Responders Downpayment Assistance Program Manual is to explain the Mayor's Office of Housing and Community Development loan terms and regulations. These terms and regulations are being provided to you prior to the closing of your loan and acquisition of a property funded by the City and County of San Francisco. You must attest to your full understanding and agreement to all program terms and conditions by signing below prior to close of escrow.

I/We the undersigned hereby acknowledge and accept the loan terms as described in this First Responders Downpayment Assistance Program (**FRDALP**) Manual, as more particularly described in the Mayor's Office of Housing and Community Development's City Note and Deed of Trust.

Property Address: _____

Buyer: _____
(Name of buyer) Date

Buyer: _____
(Name of buyer) Date

First Responders Downpayment Assistance Loan Program

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CITY AND COUNTY OF SAN FRANCISCO MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT

FIRST RESPONDERS DOWNPAYMENT ASSISTANCE LOAN PROGRAM (FRDALP)

I. INTRODUCTION TO FIRST RESPONDERS DOWNPAYMENT ASSISTANCE LOAN PROGRAM

A. PROGRAM SUMMARY

First Responders Downpayment Assistance Loan Program (**FRDALP**) 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) to purchase their first home in the City and County of San Francisco. Loan funds have been made available through the Housing Trust Fund established pursuant to San Francisco Charter Section 16.110. The FRDALP is a silent second loan that requires no payments for 30 years. The principal amount plus a share of the appreciation (profit) shall become due and payable at the end of the term, or repaid upon sale, transfer or rental of the property.

This manual describes the program guidelines and processing procedures for the FRDALP. It also establishes the roles and responsibilities of the City and County of San Francisco, acting through the Mayor's Office of Housing and Community Development (**MOHCD**), the first mortgage lenders and the homeownership counseling agencies. Finally, it describes the qualifications and requirements of prospective borrowers. MOHCD shall review and update these guidelines annually to reflect changes in the market and better meet the community's needs.

B. DEFINITIONS

1. **Appreciation:** An amount representing the increased value of a property determined by comparing the fair market value (FMV), or sale price of a property from the time of the original purchase to the new FMV or sale price at the time of resale.
2. **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.
3. **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.
4. **Borrower:** The applicant and all persons 18 years and older who will reside in the property.
5. **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.
6. **Dependents:** The household members who reside in the property and who are listed as dependents in the Borrowers' Federal Income Tax returns.
7. **Domestic Partner:** As defined in Family Code Section 297-297.5.
8. **Eligible Household:** To be considered a member of a household, a person must either be (1) on the title and the loan documents for the unit or (2) claimed as a dependent on the tax return of a household member who will appear on the title and loan for the property. A household is defined in terms of financial relationships and can include any owner partnerships as long as their combined gross, annual income meets the eligibility guidelines. All household members must be first time homebuyer.

9. **Fair Market Value:** The value of a property based upon the determination of an authorized appraisal report mutually acceptable to both the City and the Borrower.
10. **First 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).
11. **First-time homebuyer:** An individual is to be considered a first-time home buyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential unit in San Francisco during the three-year period preceding the date of the FRDALP application.
12. **Front-end Ratio:** The ratio between monthly household income and monthly housing costs, including first mortgage principal, interest, taxes, insurance and homeowner association dues (HOA).
13. **Gift Fund:** A borrower may use funds received as a personal gift from an acceptable donor. An acceptable donor includes a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; a fiancé, fiancée, or domestic partner.
14. **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 II(A)(3) of this FRDALP Program Manual.
15. **Home:** Any residential property in which the borrower or any of the borrower's household has ever owned as their Principal Residence.
16. **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 II(A)(3) of this FRDALP Program Manual.
17. **HUD:** The U.S. Department of Housing and Urban Development.
18. **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. MOHCD will not count qualified retirement accounts toward an applicant's assets. Such retirement accounts are limited to accounts that are intended for retirement and that would incur a penalty if withdrawn before a specified retirement age per each account. Such accounts include but are not limited to 401K and 403B accounts. MOHCD will also not count 529 college savings toward an applicant's income.
19. **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".
20. **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.
21. **Mayor's Office of Housing and Community Development (MOHCD):** The office designated by the Mayor to administer the program guidelines and perform required oversight and compliance monitoring of the Regulations established by the Affordable Housing and Home Ownership Program ("**Program**").
22. **Maximum Income:** FRDALP is available to First Time Homebuyer household whose combined annual income of all members at the age of 18 and older do not exceed 200% of the area median income (AMI) for the San Francisco Metropolitan Statistical Bay Area as published by MOHCD. The amounts are adjusted on an annual basis.
23. **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.

24. **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 FRDALP program in writing.
25. **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.
26. **Principal Residence:** (1) "Single-Family Residence", (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.
27. **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.
28. **Regulations:** The Regulations for Program as adopted by The Board of Supervisors of the City and County of San Francisco and as amended from time to time.
29. **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.
30. **SFMSA:** San Francisco Metropolitan Statistical Area.
31. **Single Family Residence:** A single-family one-unit residence.
32. **Spouse:** A partner in a marriage.
33. **Total Transaction Costs:** The cost of the purchase of a home, including the sales price, closing costs and transactional fees.
34. **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.

C. ELIGIBLE USE OF FUNDS

- 1) FRDALP Loans will be made from the Housing Trust Fund for the purpose of providing downpayment assistance to active uniformed, sworn members of the San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD) and San Francisco Sheriff's Department (SFSD) to purchase their first home in San Francisco.
- 2) FRDALP 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, as determined in accordance with Section II(A) below.
- 3) FRDALP funds must be used towards the purchase of a qualified housing unit. No more than \$250 proceeds can be directly given to any borrower.

II. PROGRAM REQUIREMENTS

A. BORROWER ELIGIBILITY REQUIREMENTS

In order to apply for a FRDALP loan, Borrower must meet the following requirements:

- 1) **FRDALP Borrowers:** must be an active uniformed, sworn member employed by the San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD) or San Francisco Sheriff's Department (SFSD). At the time of application, Borrower must provide a copy of the written verification of employment from their department to MOHCD.
- 2) **First Time Home Buyer 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 application. The period shall be counted backwards from the FRDALP application submittal date. An applicant shall be deemed to have owned an interest in a residential unit in San Francisco regardless of whether or not that interest results in a financial gain, or if the applicant has ever used the property in San Francisco as a primary residence. Notwithstanding the foregoing, the following interests in the properties in San Francisco 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 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**").

3) Income and Assets Requirements

- a. **Maximum Income Limits:** Borrower's Household Income cannot exceed 200% of the Area Median Income (AMI). As of March 28, 2016, the income limits as follows:

Persons per household	One	Two	Three	Four	Five
200% AMI	\$150,800	\$172,300	\$193,900	\$215,400	\$232,600

- b. **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:

- Compensation for services, including fees, commissions, and similar items;
- Income from assets;
- Gross Income derived from business;
- Gains derived from dealings in property;
- Interest;
- Rents;
- Royalties;
- Dividends;
- Alimony and separate maintenance payments;
- Annuities;
- Income from life insurance and endowment contracts;
- Pensions;
- Income from discharge of indebtedness;
- Distribution share of partnership Gross Income;
- Income in respect of a decedent;
- Income from an interest in an estate or trust; and
- Public benefits including but not limited to CalWORKs, SSI, Disability income.

MOHCD projects future income based on the Gross Income on each applicant's past three income statements from each source of income. MOHCD must review income documentation for all Household members 18 years and older, regardless of dependency status.

The following three methods have been adapted by MOHCD for calculating household income for qualification purposes under the FRDALP. All three methods will be applied to each household, and MOHCD will use the methodology that yields the highest annual household income.

a) Calculating Income from Paystubs (Current Test)

Use the most current paystub, divide the year-to-date 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 calendar year.

Example of Calculating Income with Paystubs:

Year-to-date (YTD) income as stated on the most recent paystub for the calendar year = \$20,000
Current pay period number 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)

b) 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 gross 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 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:

Year-to-date (YTD) income as stated on the most recent paystub for the calendar year = \$20,000
Gross income from last year's income tax return: \$50,000
Number of months applicant has worked this year: 6
 $\$50,000 + \$20,000 = \$70,000$
 $6 \text{ months} + 12 \text{ months} = 18 \text{ months}$
 $\$70,000 / 18 = \$3,888.89$ (average monthly income)
 $\$3,888.89 \times 12 = \$46,666.67$ (annualized income)

c) Two-Year Average

Add the household's gross 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:

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

Tips and Bonuses: When calculating income based on paystubs, 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.

Calculating 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.

Calculating Income from Self-employed Income: All self-employed applicants must submit a notarized Self-Employed affidavit provided by MOHCD. In general, any individual who has a 25% or greater ownership interest in a business is considered to be self-employed. Self-employed borrower's employment and income will be verified by obtaining from the applicant : (1) 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 (2) profit & loss statements to

date from last tax filing. MOHCD will use the income from tax returns and/or annualized earnings from profit & loss statements, whichever calculation yields the higher annual household income, to determine eligibility.

Calculating Income from Cash Income: In the case of an applicant who is paid in cash for employment, MOHCD will require a Verification of Employment from the applicant's employer to confirm annual income and IRS form 4506-T to verify that no taxes were paid by said employer.

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 FRDALP application processing for MOHCD to validate applicant's unemployment and income.

Verification of Employment: An official Verification of Employment that is signed by an applicant's employer shall be used as the final proof of an applicant's income, if needed.

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

c. Liquid Assets: Combined household Liquid Assets after the 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.

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 denial of the Borrower's application.

d. Allowable Age of Income and Assets Documents: must be no more than 60 days old at the time of submission of the FRDALP loan application. When consecutive documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when three consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 60 days old.

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

- (1) Legal dependents of titleholders as claimed on the most recent federal income tax return or legal minor children of titleholders. Spouses or Domestic Partners are not considered dependents;
- (2) Household members younger than age 24 who are the child of a titleholder who will reside in the housing unit as their primary residence, regardless of being named as a dependent on the federal tax form of a titleholder; and,
- (3) Recent immigrants with insufficient credit history as defined as a person who has been in the United States for 2 years or less as supported by entrance documentation or a sworn statement and lender documentation of the reason for loan denial, including a copy of the borrower's credit report.

5) 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). MOHCD reserves the right to identify additionally prohibited title vesting and transfers.

- 6) **Minimum Downpayment Requirements:** The borrower must contribute a minimum of five percent (5%) of the fair market value toward the down payment of the property. 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 plus necessary reserve funds.
- 7) **Post Purchase Reserve Funds:** Borrower must have at least three months' worth of housing payments (principal, interest, property taxes, insurance and homeowners association dues) in liquid reserves after purchasing the home. This provides assurance that the mortgage can be paid even if the borrower is experiencing cash flow problems.
- 8) **Homebuyer Education Requirements:** All adult household members on title must complete the first-time homebuyer education course through one of the five MOHCD-approved housing counseling agencies. A certificate of completion of homebuyer education must be included with the application package. For a schedule of the homebuyer course, borrower may call or visit the housing counseling agencies website: www.sfmohcd.org or post on www.homeownershipsf.org. Certificates must have been dated within the last 12 months from the date of the application submission for FRDALP.
- 9) **Owner-Occupancy Requirements:** 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.
- 10) **Non-Discrimination and Privacy Requirements:** All borrower eligibility requirements contained in this manual must be applied without regard to the race, creed, color, gender, religion or national origin of the borrower. Lenders shall be sensitive to the privacy interests of the borrowers, and should use the information received only for purposes of verifying the borrowers' eligibility for a downpayment assistance loan.
- 11) **Conflict of Interest:** The purpose of the homeownership loans and housing programs administered by MOHCD is to assist eligible 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.

B. PROPERTY ELIGIBILITY REQUIREMENTS

- 1) **Property Requirements:** All properties purchased with FRDALP funds must be single-family 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).

- 2) **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). FRDALP borrower cannot purchase a housing unit in which any unlawful rental eviction has occurred.
- 3) **Property Flipping:** FRDALP cannot be used to purchase properties resold within 90 days and with more than 20% above the initial purchase price.
- 4) **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 FRDALP 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 FRDALP submission, acceptable to the borrower and submitted to MOHCD along with the DALP application. All reported deficiencies that pose immediate health and safety hazard or code violation must be corrected as a condition prior to funding of a FRDALP 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 family and condominium units) an inspection report is recommended but not required.

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

- 5) **Appraisal Report:** 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; A copy of the appraisal report must be attached to the FRDALP application. The appraisal report should be no more than 90 days old at the time of submission of the FRDALP loan application.

III. FINANCING REQUIREMENTS

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

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

First Mortgage Requirements: The first mortgage loan must be a 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.

Co-Signing: Co-signing for a FRDALP loan by a non-household member is not allowed.

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

Non-recurring loan closing costs: FRDALP Funds cannot be used to pay for non-recurring loan closing costs. The borrower will be responsible for any escrow fee or closing costs associated with the completion of the transaction. The amount of non-recurring closing costs shall not exceed 3% of the purchase price.

Seller/Realtor/Lender Credits: Credit funds are allowed for non-recurring loan closing costs. All credits must be used in escrow, no more than \$250.00 cash may be paid back to borrowers at close of escrow. Any excess cash must first be applied towards the purchase. Credit or cash back towards pay-down of the first mortgage principal is not allowed. Borrower cash back for pay-down of other debts is also not acceptable.

- 2) **Maximum FRDALP Loan Amount:** is \$375,000. Qualifying loan amounts are based upon Household Income and debt to income ratio.
- 3) **FRDALP Loan Reservation:** FRDALP funds, as specified in the commitment letter issued to a borrower, will be placed on reserve for a period of no more than 45 days from date of the commitment.
- 4) **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. Borrower must remain a First Responder for a minimum of five years from the date the home is purchase. Should borrower's status change prior to five years, the full amount of the loan, plus share of appreciation is immediately due. 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.
- 5) **Maximum Combined Loan-To-Value Requirement (CLTV):** The maximum CLTV cannot exceed 95%, which includes the first mortgage, FRDALP and any other borrowed subordinate financing. The minimum first mortgage loan LTV cannot be less than 50%.
- 6) **Debt to Income Ratio (DTI):** 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 ratios than those cited above. Recognizing that the financial circumstances of each borrower are unique and that there may be other factors besides debt-to-income ratios that reflect the borrower's ability and willingness to repay mortgage loans, the MOHCD may consider higher ratios if two or more of the following indicators are present:

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

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

- 7) **Post Purchase Reserves Funds:** Borrowers using FRDALP must have a minimum of three months total monthly housing expenses in reserves after purchase. Some Borrowers may qualify for first-mortgage financing with fewer than three months reserves. Recognizing that the financial circumstances of each

borrower are unique and that there may be other factors that reflect the borrower's ability and willingness to repay mortgage loans, the MOHCD may consider 2 months reserves if two or more of the following indicators are present:

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

8) Repayment: Unless a default occurs, the FRDALP 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 proportional share shall be based on the ratio of the original downpayment 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 FRDALP loan in the amount of \$375,000 with the purchase price of \$1,300,000, the share appreciation would be 29%.

$$\frac{\$375,000 \text{ FRDALP Loan Amount}}{\$1,300,000 \text{ Purchase Price}} = 29\% \text{ of share Appreciation}$$

A) SAMPLE CALCULATION OF ELIGIBILITY

The following examples illustrate the possible scenarios of funding eligibility for various FRDALP 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 200% AMI:	\$215,400
Purchase price of a property:	\$1,300,000
Borrower Down Payment (5%):	\$65,000
First Mortgage:	\$860,000
FRDALP Loan Amount:	\$375,000
Interest Rate:	4.250%
Term:	30 yr. fixed
Property Taxes	\$1,400
Insurance:	\$350
Total Front-End Ratio:	33.32%
Total CLTV:	95.00%

B) SAMPLE CALCULATION OF REPAYMENT OBLIGATION

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

Resale Price:	\$1,350,000
Original Purchase Price:	(\$1,300,000)
Appreciation:	\$50,000
Computation of City's Proportional Share FRDALP (\$375,000) / Original Sale Price (\$1,300,000):	29%
Share of Appreciation 29% x \$50,000:	\$14,423
Principal FRDALP Loan Amount:	\$375,000
TOTAL REPAYMENT AMOUNT DUE:	\$389,423

- 9) **Prepayment Penalty:** There is no prepayment penalty associated with payment of these loans prior to the due date (sale or rental). However, prepayment must be in full; the loan cannot be partially repaid. If there is a prepayment, the amount due and owing will be determined by an appraisal (at the Borrowers own cost) to determine the amount of appreciation. The appraisal must be approved by the MOHCD Director.
- 10) **Assumable/Transferable:** The MOHCD FRDALP loans are not assumable or transferable. The loans must be paid in full upon sale or title transfer of the property.
- 11) **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.
- 12) **Refinance/Subordination:** The FRDALP 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. If the refinance meets the City subordination requirements, the FRDALP loan will subordinate to the new first mortgage.

Subordination Requests: Borrowers must work with one of our approved lending officers to refinance their FRDALP 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.

Home Equity Lines of Credit and Home Equity Loans: MOHCD does not allow FRDALP 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 FRDALP loans. The FRDALP loan program 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.

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

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

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

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

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

IV. GENERAL LOAN REQUIREMENTS AND COMPLIANCE

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

V. PROGRAM PROCEDURES FOR LENDERS

The Mayor's Office of Housing and Community Development will act as the Program Administrator. Eligible Borrowers may only apply for downpayment assistance loans through Participating Lenders or lending officers. Participating Lenders may submit applications only after determining that the Borrower is eligible for a first mortgage and also eligible for the City's downpayment assistance loan. Borrowers' applications must be complete with all required attachments, including a ratified purchase agreement for the purchase of a specific property. If the City habitually receives incomplete or incorrect applications from a Participating Lender, MOHCD may discontinue the use of said lender for FRDALP.

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.

FRDALP 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://sf-mohcd.org>.

VI. FRDALP PRE-APPROVAL SUBMISSION (COMING SOON!)

Save time and make home buying experience go more smoothly with a pre-approval letter before the homebuyers start looking. Our FRDALP pre-approval helps homebuyers understand how much of a FRDALP loan they may qualify for, before they find a home and provides a potential advantage when bidding against other buyers. To get pre-approved, a borrower will need to provide:

- FRDALP Pre-Approval Transmittal Form
- Signed HomeownershipSF Consent Form
- Verification of Homebuyer Education Completion through one of MOHCD-approved housing counseling agencies.
- Borrower(s) three most current & consecutive pay stubs;
- Borrower(s) Federal Income Tax Returns for the past three years with all applicable schedules and W-2s (signed and dated);
- Borrower(s) three most current & 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 returns and in some cases, business returns) that were filed with the IRS for the past three years with all applicable schedules attached; b) Profit & loss statement(s) to date from last tax filing; 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);
- Pre-approval letter from first mortgage lender.

MOHCD will send a written response to approve or deny the requested FRDALP loan pre-approval within 7-10 business days upon receipt of a complete submission. Borrower will have 30 calendar days from the date of pre-approval letter to enter a purchase contract and submit a complete final approval application to MOHCD. The final FRDALP loan approval is subject to our review of final approval application and loan commitment to ensure compliance with our policies.

VII. FRDALP APPLICATION SUBMISSION

1. Borrower's Responsibilities:

- Borrower will be required to complete the first-time homebuyer education course through one of MOHCD-approved housing counseling agencies. A Certificate of Completion of Homebuyer Education dated within 12 months must be included with the application package.
- Enters into a purchase agreement with a seller.
- Applies to a Participating Lender for Primary Mortgage Loan.
- Provides a signed and dated Downpayment Assistance Loan Program 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 Borrower(s) state-issued photo Identification Card.
- Provides a written verification of employment (VOE).
- Pay 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 FRDALP 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 must provide 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) Profit & loss statement(s) to date from last tax filing.
 - c) Copies of all invoices and payments made to the borrower as a part of self-employment in the current calendar year (if applicable).
- Upon approval of down payment assistance loan, the borrower signs a copy of the City's loan commitment letter indicating acceptance within 5 business days.

2. Lender's Responsibilities:

- Lender will ensure that participating loan officers receive training from MOHCD on a regular basis, and keep current on the products available to first time, low-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 Certificate 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 acknowledges 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 4 business days to fund all DALP loans from the time of approving a final package of loan documents. The City and County of San Francisco cannot *rush* funding to meet rate expiration and other deadlines. Lender arrangements must be made to allow for this funding period. **Loan packages received by MOHCD containing Purchase Contracts with less than 15 business days remaining to close will be returned to the homebuyer for contract extension.****

Submits to the City:

THE APPLICATION PACKAGE MUST BE SUBMITTED ELECTRONICALLY THROUGH DAHLIA.

- Downpayment Assistance Loan Program Transmittal Form
- Non-refundable cashier's check for FRDALP or MCC application fee only, if combining MCC program with FRDALP. 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 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
- Certificate 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

3. City Responsibilities:

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

The following closing documents must 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 (FRDALP Note);
- Copy of the signed City Escrow Instructions;
- Certified copy of the executed City notes (FRDALP Note);
- Certified copy of the executed City deeds (FRDALP Deed);
- Certified copy of the Grant Deed;
- Certified copy of the Requested for Copy of Notice of Default;
- Certified copy of the First Deed of Trust;
- Certified copy of the First Note;
- Certificate of Homeowner Insurance Policy; or HO6 Insurance Policy;
- Estimated Master Settlement Statement;
- Any other liens behind the City loans.

Loan processing, underwriting and approvals require 10 business days. Loan commitment shall be issued 10 business days after MOHCD receives complete and accurate lender forms. Please allow 4 business days for MOHCD to fund, after MOHCD receives the borrower's executed original City promissory note and copies of documents described above from escrow.

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

VIII. **Application Requirements Changing an Application after Submission**

No application changes shall be allowed after an application is submitted unless the change is (1) the removal of an applicant, (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 a job that has ended; or (4) correction of technical errors, such as current phone number or other non-qualifying information. **MOHCD's approval is final. 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 re-underwriting.**

Transferring FRDALP Applications to Another Lender: If an applicant changes from one Participating Lender to another after the FRDALP 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 FRDALP application to MOHCD for review and approval.

Request for Application Reconsideration: An applicant requesting reconsideration of a disqualified application shall submit new information or documentation contesting the disqualification to MOHCD within 3 business days from the date of the disqualification letter and MOHCD shall respond by the end of a 7 business day period from the date of the disqualification letter.

All loan packages will be processed by the City according to the date of receipt. All required documents must be included in the application package. Incomplete packages will delay the processing of the application and will be deleted within 48 hours in our DAHLIA system.