

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



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**CalHome Mortgage Assistance Loan Program
BMR-DALP Downpayment Assistance Loan Program
Operating and Procedures Manual
May 2015**

**CITY AND COUNTY OF SAN FRANCISCO
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**CalHome Mortgage Assistance Loan Program
(BMR-DALP)**

PROGRAM DESCRIPTION

A. INTRODUCTION

The Purpose of the CalHome Mortgage Assistance Loan Program is to support existing homeownership programs targeted at lower and very-low income households. The Mayor's Office of Housing and Community Development (MOHCD) administers several programs to assist low-income first time homebuyers. The CalHome Mortgage Assistance Loan Program will be used to provide downpayment assistance loans to households at or below 80% of the HCD low income Limits to purchase below market rate (BMR) condominium units. The CalHome Mortgage Assistance Loan will be available to all borrowers on a first come, first served basis.

B. DEFINITIONS

1. **Assets of Borrower:** Assets include all monies or properties held by any occupant of the Borrower's household, including minors, except funds held in a pension account, retirement fund, 401K plan, 403B, or similar asset that is not available for purchase of the property or liquidation.
2. **Back-end ratio:** means the ratio between monthly household income and monthly housing costs plus all payments on long-term installment debt.
3. **Bedroom:** A habitable room with legal ceiling heights, a closet, window and door with direct connection with the living space of the property.
4. **Below Market Rate Unit:** "BMR" Units are properties that are affordable due to price and/or eligibility limits and will usually have resale restrictions.
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:** Mean the household member who will reside in the property and on the mortgagors' tax return.
7. **Eligible Household:** 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. 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 returns of a household member who will appear on the title and loan for the CalHome Mortgage Assistance Loan.
8. **Fair Market Value:** The value of a property based upon the determination of an authorized appraiser mutually acceptable to both the City and the borrower.
9. **First-time homebuyer:** The Borrower or co-borrower receiving a CalHome Mortgage Assistance Loan from the City who has not owned any interest in a dwelling unit, any commercial real estate, or any land for last three years prior to applying the CalHome Mortgage Assistance Loan.
10. **Front-end Ratio:** means the ratio between monthly household income and monthly housing cost, including first mortgage principal, interest, taxes, insurance and homeowner association due (HOA).
11. **Gross income:** shall mean the anticipated income of a borrower or household member for the twelve-month period following the date of determination of income.

12. **HCD:** California Department of Housing and Community Development.
13. **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.
14. **Household Income:** All sources from which the borrower(s), and any other person over 18 years of age who is expected to live in the residence, receive income including the monthly gross pay; any additional income from overtime, part-time employment, bonuses, commissions, tips, dividends, interest, royalties, pensions, Veteran's Administration (VA) compensation, net rental income or other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments).
15. **Loan-to-value-ratio:** means the ratio between the amount of all indebtedness liened or to be liened against a property to the appraised value of the property securing the liens.
16. **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").
17. **Maximum Sales Price:** Maximum price allowed for purchase by a Borrower under the program. Current pricing is established to be affordable to a household making no greater than the 100% median income and adjusted on an annual basis consistent with changes in the median incomes and availability of BMR units in San Francisco.
18. **Maximum Income:** CalHome Mortgage Assistance Loan is available to First Time Homebuyer with combined annual income of all members over the age of 18 do not exceed 80% of the HCD low income Limits as defined by California Department of Housing and Community Department and adjusted for household size. The amounts are adjusted on an annual basis
19. **Monitoring:** Activities of the Mayor's Office of Housing, 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.
20. **Net Appreciation:** An amount representing the increased value of a property determined by comparing the sale price of a BMR property, at the time of the original purchase with the new sale price at the time of resale.
21. **Participating Lender:** Lending institutions selected by the Mayor's office of Housing and Community Development on the basis of a competitive proposal that have demonstrated their ability to provide loan origination services and perform other duties within applicable laws and the regulations. These lenders will be granted the sole authorization to perform the required services under the Program requirements.
22. **Primary Financing:** The first mortgage made by Participating lender for the purchase of a primary residence, which shall be the maximum loan affordable to an eligible Borrower.
23. **Principal Residence:** (1) A single family house, (2) Condominium, (3) townhouse, or (4) share cooperative. It does not include recreational vehicles, campers, and limited cooperative or similar vehicles.
24. **Purchase Price:** The cost of acquiring a residence, excluding usual and reasonable settlement or financing costs, and excluding the value of services performed by mortgagor in completing the acquisition of the residence.

C. BORROWER ELIGIBILITY:

The following criteria must be met by borrowers to be eligible for funding under the requirements of the CalHome Mortgage Assistance Loan:

- 1) Only U.S. citizens and qualified aliens may receive BMR-DALP loans that fund by CalHome Mortgage Assistance Loan Program.
- 2) **Income and Asset Requirements:**

- a. **Maximum Income Limits:** The household income of any Borrower cannot exceed 80% of the HCD low income Limits as published by the California Department of Housing and Community Development (HCD) adjusted for household size. For purposes of determining the household income, the income of all persons 18 years and older who will reside in the property will be considered as part of the total income used to determine eligibility within the established limits.

A Borrower may be eligible for the CalHome Mortgage Assistance Loan if the largest mortgage for which the borrower can qualify plus the borrower's downpayment from all available assets is less than the purchase price of the property. Available assets include all monies, investments and properties held by any member of the borrower's household.

- b. **Gross Income Includes:** All sources of income from which the Borrower and any other person over 18 years of age who is expected to live in the residence. Gross income from wages, salaries; any additional income from overtime, part-time employment, bonuses, commissions, tips, dividends, interest or dividends earned on assets, royalties, annuities, insurance policies, retirement funds, pensions, disability or death benefits, Veteran's Administration (VA) compensation, net rental income or other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments).
- c. **Income Determination:** The gross income of a mortgagor (or mortgagors) (as defined by CCRs Title 25 Section 6914) promulgated by the Internal Revenue Service is the mortgagor's annualized gross income. "Gross income" shall mean the anticipated income of a borrower or family member for the twelve-month period following the date of determination of income. If the circumstances are such that it is not reasonably feasible to anticipate a level of income over a twelve-month period, a shorter period may be used subject to a redetermination at the end of such a period. "Income" shall consist of the following:

(a) Except as provided in subdivision (b), all payments from all sources received by the family head (even if temporarily absent) and each additional member of the family household who is not a minor shall be included in the annual income of a family. Income shall include, but not be limited to:

- 1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;
- 2) The net income from operation of a business or profession or from rental or real or personal property (for this purpose, expenditures for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business);
- 3) Interest and dividends;
- 4) The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;
- 5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay (but see subdivision (b)(3)).
- 6) Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;

- 7) All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family or spouse.

The calculation of income based on the gross income on each borrower's past three pay stubs. Each household member's income is derived by dividing the year-to-date gross income by the person's current pay period and then by annualizing an estimated pay period amount by the number of times the person is paid in one year. Calculations such as part-time employment with variable hours (or less than 40 hours per week), inconsistent income or hours, overtime, bonuses and commissions, etc., can be calculated using year-to-date income to project the annual income. The income verification must not be more than six months old at the time of loan funding (not at the time of loan approval).

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

Example:

Year-to-date income is \$20,000 as of the 10th pay period of the year
Estimated pay period amount = \$20,000 divided by 10 = \$2,000
Total number of pay periods in year for borrower is 24
Annualized pay = \$2,000 x 24 = \$48,000

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

Self-employed borrower must provide:

- Self-Employment Affidavit with Profit & Loss Statement from most recent quarter attached
- All Profit and Loss statements from the past 3 years

Example:

Net income is \$15,000 for 3 months on the P/L Statement
Estimated Income amount = \$15,000 divided by 3 = \$5,000
Total number of the year is 12 months
Annualized Income = \$5,000 x 12 = \$60,000

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

- Unemployment Affidavit that is signed and notarized.
- Unemployment Affidavit must be used only in the event that the borrower is not able to provide the Mayor's office of Housing and Community Development with paystubs or other documentation of regular income.

Asset Test for CalHome Mortgage Assistance Loan

Asset Requirement: Available Assets do not include funds held in pension accounts, retirement funds, 401(k) plans, 403B or similar assets, which are not available for liquidation without substantial financial penalty to the Borrower. Personal property such as household furnishings, tools of trade or employment, or automobiles are NOT considered available assets.

Liquid Cash Assets exceeding \$25,000 must be used towards the purchase first.

The Mayor's office of Housing and Community Development will apply an asset test to all borrowers. Assets include all savings, checking accounts, gifts and other sources of money (cash) other than retirement accounts. (If your retirement account is currently generating income -- i.e. you are living off of your retirement -- you must count this money as income on the CalHome Loan application.) 2% of the assets' cash value over \$5,000 or the actual income from the assets, whichever is higher, will be added to the total household income. Retirement savings will be excluded from the asset test, but all retirement statements should be included in the application package. The value of necessary items such as furniture and automobiles shall be excluded.

Example: (CalHome Asset Test)

Household of 3 earns \$50,000 a year

Total household assets = \$10,000, first \$5,000 will not count toward to the assets test

2% of \$5,000 is added to income: $\$5,000 \times 2\% = \100

New total household income: $\$50,000 + \$100 = \$50,100$

2015 Income Limits – as published in the California HCD website

Household Size	One	Two	Three	Four	Five	Six
80% of HCD Income Limits	\$65,700	\$75,100	\$84,500	\$93,850	\$101,400	\$108,900

- 3) **First Time Buyer Requirements:** The CalHome Mortgage Assistance Loan is available only to those Borrowers who have not owned any property, nor have any other real estate holding in the past three years. This includes homes in any geographic location and not limited to property in the City and County of San Francisco.
- 4) **Minimum Downpayment Requirement:** The CalHome Mortgage Assistance Loan has 5% borrower downpayment requirement; 3% from the borrower's own funds and 2% can be gifts. The total minimum borrower down payment must be 5%. The CalHome Mortgage Assistance Loan will only be used to provide downpayment assistance loans to households purchasing Below Market Rate (BMR) units in San Francisco, which are priced to be affordable to a household at 80% of AMI, and are priced assuming a 10% downpayment. However, all borrowers must have sufficient funds to meet the required closing cost, necessary reserves and sufficient income to meet the monthly mortgage payments, property tax, homeowner insurance and homeowner association dues.
- 5) **Primary Financing:** Any Borrower applying for mortgage assistance funding must qualify first for a mortgage from a Participating Lender for the purchase of an eligible property located in the City and County of San Francisco prior to submitting an application for a CalHome Mortgage Assistance Loan. Borrowers must have sufficient funds to meet the required down payment, closing costs, and necessary reserves and sufficient income to meet the monthly mortgage payments, property tax, homeowner insurance and HOA dues.

The first mortgage from participating lenders must be 30 years fixed rate, the mortgage payment should include principal and interest, as long as it does not have interest only, ARM, balloon or negative amortization payment options. First mortgage lenders are required to collect and manage an impound account for payment of taxes, assessments and property insurance for the term of the first mortgage.

Total Loan-to-Value Ratio (LTV) cannot exceed 100% of the purchase price, which includes the first mortgage, and any other junior mortgages needed to close the affordability gap, including the CalHome Mortgage Assistance Loan.

Loan Assumption: CalHome Mortgage Assistance Loans are not assumable. The loan must be paid in full upon the sale or title transfer of the property.

Subordination/Refinance: The CalHome Mortgage Assistance Loan can be subordinated to the refinancing of the existing first trust deed loan for lower interest rate and better loan term. However, a condition of the refinancing is that the buyers receive no cash through the refinance, including paying off installment or consolidate credit accounts.

- 6) **Homebuyer Education Requirements:** All approved CalHome Mortgage Assistance Loan borrowers will be required to complete the first-time homebuyer education course through one of MOHCD's 5 approved housing counseling agencies (see page 12 of this manual). A certificate of completion of homebuyer education must be included with the application package. For schedule of the homebuyer course, borrower may call or visit the housing counseling agencies website listed on page 11 of this manual. Certifications must have been issued within 6 months from the date of the application for CalHome Mortgage Assistance Loan.

- 7) **Owner - Occupancy Requirement:** All Borrowers must meet the following residency requirements throughout the life of the loan in order to comply with the terms of the down payment assistance loan:
- a. The Borrower must commit to occupying the purchased property as their primary residence within 60 days after the close of escrow. Exceptions to this requirement can be made only by written authorization of the Director and only as a result of special extenuating circumstances.
 - b. The borrower must expect to occupy the purchase property as their primary residence substantially all of each year.
 - c. Properties eligible to receive CalHome Mortgage Assistance Loan funding must remain owner occupied throughout the term of the loan. Compliance monitoring may be performed and documented proof of occupancy required at intervals determined by the Mayor's Office of Housing.
- 8) **Debt-to-Income Ratio:** Borrowers monthly housing debt, including property taxes, property insurance, and if applicable mortgage insurance and homeowner's association dues, cannot be less than **30%** percent of the household's gross income.
- The ratio of monthly housing costs, plus all other household monthly debt (including credit cards, automobile payments, etc.) cannot exceed **43%** percent of the borrowers' gross income.
- 9) **Household Size Compatibility:** At the time of application, 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.

D. **PROPERTY ELIGIBILITY:**

1. All properties purchased with CalHome Mortgage Assistance Loan funds must be Below Market Rate units (BMRs) administered by the Mayor's office of Housing and Community Development and Community Development.
2. The maximum price for BMR units is determined by the Mayor's office of Housing and Community Development according to a formula designed to make them affordable to households earning at or less than 80% of the HCD low income Limits of the area median income.

E. **LOAN TERMS**

Loans provided by the San Francisco CalHome Mortgage Assistance Loan Program must meet with the following terms:

1. **Maximum Loan Amount:** The maximum loan amount is \$57,000 or 15% of the purchase price, whichever is less.
2. **Repayment:** The CalHome Mortgage Assistance Loan is deferred for thirty (30) years from the date of the purchase or until the sale of the property of the property. The payoff amount due by borrower is the principal amount of the loan plus a share of the appreciation of the property.

The proportional share shall be based on the ratio of the CalHome Mortgage Assistance Loan amount to the affordable price of the property. At the time that the property is sold, the City will determine the value of the property at that time.

The appreciation is determined by subtracting the original purchase price from the current affordable price if the loan accelerating event is other than the sale of the property. If the property has not increased in value, the borrower shall be obligated to repay the principal amount of the loan only.

3. **Prepayment Penalty:** There is no prepayment penalty associated with payment of these loans prior to the due date.

4. Documentation and Security: The following documents shall be executed by the Borrower to secure the loan after satisfaction of all requirements for funding:
 - a. Loan Commitment – executed by borrower to accept the loan terms and conditions.
 - b. Deed of Trust - executed at the close of the sale by the Borrower, for the benefit of the City and County of San Francisco to secure the Promissory Note.
 - c. Promissory Note - executed at the close of the sale by the Borrower for the benefit of the City and County of San Francisco and secured by the Deed of Trust.
7. Compliance with Federal, State and Local Laws and Ordinances: Program funds shall be used in accordance with Federal, State and Local rules, regulations and directives as they apply.

F. SAMPLE CALCULATIONS OF ELIGIBILITY:

The following examples illustrate a possible loan scenario given the variables in levels of income, household size, property price, available assets, and primary loan amount.

Total Combined income for a family of three (3):	\$ 84,500
Purchase price of a property:	\$280,000
Borrower's Downpayment:	\$ 14,000
First Mortgage Amount:	\$224,000
Amount of CalHome Mortgage Assistance Loan funds available:	\$ 42,000

H. SAMPLE CALCULATION OF REPAYMENT OBLIGATION

The following examples illustrate the possible repayment scenarios at resale:

A	Loan Principal:	\$ 42,000
B	Original Purchase Price:	\$280,000
C	Appreciation Share (A ÷ B)	15%
D	*New Sales Price:	\$305,000
E	Appreciation (D - B)	\$ 25,000
F	Appreciation Share (C)	15%
G	Appreciation Share Amount (E x F)	\$ 3,750
H	Total Due to City (A + G)	\$ 45,750

G. PARTICIPATING LENDER'S PROGRAM PROCEDURES

Eligible borrowers apply for CalHome Mortgage Loan funding through Participating Lenders. Participating lenders may submit applications only after determining that the borrower is eligible for a first mortgage and approved to purchase BMR unit. Applications must be complete with all required attachments. CalHome Mortgage Assistance Loan funds will be available to all borrowers on a first come, first served basis.

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 Participating 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 CalHome Mortgage Assistance Loan Program Manual.

All participating lenders must attend a lender training and sign the **Lender Participation Agreement** to become one of the CalHome Mortgage Assistance Loan certified lenders (see attached List of Participating Lenders).

The Mayor's office of Housing and Community Development will act as the Program Administrator. MOHCD may delegate part of its administrative functions to Participating Lenders through the Lender Participation Agreement.

CalHome Mortgage Assistance Loan Program Process

1. **Borrower's Responsibilities:**

- a. Enters into a purchase agreement with a seller or developer of the BMR unit.
- b. Obtains BMR conditional purchase approval letter from MOHCD.
- c. Applies to a Participating Lender for Primary Mortgage Loan.
- d. Provides a signed and dated addendum Application for CalHome Mortgage Assistance Loan.
- e. Provides a signed and notarized copy of Income Tax Affidavit-If applicable.
- f. Provides a signed and notarized copy of First Time Homebuyer Affidavit.
- g. Provides the lender with income verification documentation as required by the guidelines to establish program eligibility.
- h. Borrower will be required to complete an approved first-time homebuyer education course. A copy of Homebuyer Education Certificate must be included with the application package
- i. Upon approval of CalHome Mortgage Assistance Loan, borrower signs a copy of the City's proposed loan indicating acceptance.

2. **Participating Lender's Responsibilities:**

- Lender has reviewed the borrower's application to ensure the borrower meets the program guidelines.
- Lender receives an application from a borrower who has undergone counseling from a HUD-approved Homebuyer Education Counseling Agency.
- If a Lender receives an application from a borrower who does not possess a Homebuyer Education Counseling Certificate, Lender will refer borrower to 5 counseling agency to complete the workshop before submitting an application to the City
- Lender will work with borrower and counseling agency to apply for all available subsidies and programs for which the borrower qualifies.
- Lender has reviewed and verified the borrower's credit report to ensure the borrower qualify for the CalHome Mortgage Assistance Loan.
- Lender performs standard lender underwriting process.
- Lender requires collecting and managing impound accounts for payment of property taxes and insurance for the term of the first mortgage loan.

Lender Submits to the City:

- Complete, signed and dated original CalHome Mortgage Assistance Loan Application form
- Copy of Buyer's BMR Approval Letter from MOHCD
- Original, signed and dated 1003 Mortgage Application form (signed by the borrowers and loan officer)
- Copy of 1008, Underwriting Summary
- Copy of Good Faith Estimate
- Copy of Ratified Sales Agreement – Include all Addendums
- Copy of Credit Report for each household member
- Signed IRS form 4506-T
- HCD Benefits Status Form 1
- Copy of first-time homebuyer certificate
- Preliminary Title Report – must include Wire Instructions
- Gift Letter (if applicable)

3. **City Responsibilities:**

- Reviews loan package to ensure completeness and determines whether all necessary forms and certifications are included and fully executed. Incomplete loan package will be return for completion within 15 business days.
- Evaluates borrower eligibility.
- Notifies Lender of approval or denial within 15 business days from submission of a complete loan package.
- Submits a commitment letter to the lender upon borrower's approval.
- Provides designated title company with a check in the amount of the approved city loan, Deed of Trust, Promissory Note and escrow instructions for execution by the Borrower.

- Wire funds to escrow, upon receipt of borrower's executed City Promissory Note, along with copies of the Deed of Trust, Escrow's Acceptance of Instructions, estimate HUD-1 Settlement Statement report.
- Monitors Borrowers throughout the life of the loan to ensure compliance with residency requirements.
- All completed loan packages will be processed by the City according to the date of receipt and completeness. Incomplete loan package will be return for completion. Enclosed are copies of the required loan package summary and forms.

City and County of San Francisco
MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT (MOHCD)

Approved Homebuyer Counseling Agencies

<p>Asian, Inc. 1167 Mission Street San Francisco, CA 94103 (415) 928-5910 www.asianinc.org</p>	<p>Mission Economic Development Agency (MEDA) 3505 20th Street San Francisco, CA 94110 (415) 282-3334 www.medasf.org</p>
<p>Consumer Credit Counseling Service of San Francisco (CCCSSF) 595 Market Street, 15th Floor San Francisco, CA 94105 (415) 788-0288 www.housingeducation.org</p>	<p>San Francisco Housing Development Corporation (SFHDC) 4439 3rd Street San Francisco, CA 94124-3117 (415) 822-1022 www.sfhdc.org</p>
<p>San Francisco LGBT Community Center In Partnership with Consumer Credit Counseling Service of San Francisco (CCCSSF) 1800 Market Street San Francisco, CA 94102 (415) 865-5658 www.sfcenter.org</p>	<p>All 5 agencies are members of the HomeownershipSF www.homeownershipsf.org</p>