

# CITY AND COUNTY OF SAN FRANCISCO

## MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT



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**San Francisco Teacher Next Door Loan Program (TND)**

**October 2016**

# IMPORTANT NOTE TO THE READER

The purpose of this Teacher Next Door (**TND**) Loan 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 Teacher Next Door (TND) Loan Program 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

# San Francisco Teacher Next Door Loan Program

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**CITY AND COUNTY OF SAN FRANCISCO  
MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT  
TEACHER NEXT DOOR LOAN PROGRAM (TND)**

**I. INTRODUCTION TO TEACHER NEXT DOOR LOAN PROGRAM**

**A. PROGRAM SUMMARY**

The Mayor's Office of Housing and Community Development (**MOHCD**) administers the Teacher Next Door (**TND**) Program to assist educators currently employed with the San Francisco Unified School District (SFUSD) with the purchase of their first home in San Francisco.

This manual describes the program guidelines and processing procedures for the TND. It also establishes the roles and responsibilities of the City and County of San Francisco 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. **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.
2. **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.
3. **Bedroom:** A habitable room with legal ceiling heights, a closet, window and door with direct connection with the living space of the property. Bonus room and finished room will be considered as bedroom, if the room meets the above requirements. The size of a household must be compatible with the size of the unit being purchased. A minimum of one person per bedroom is required.
4. **Below Market Rate Housing Units (BMR):** are properties administered by MOHCD, priced to be affordable to program and income eligible first-time homebuyers. The BMRs are subject to occupancy and resale restrictions. TND loan can be used in the purchase of a BMR unit.
5. **Borrower:** The applicant and all persons 18 years and older who will reside in the property.
6. **Condominium:** As defined in Planning Code Section 401.
7. **DAHLIA:** The Database of Affordable Housing Listings, Information and Applications.
8. **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.
9. **Dependents:** The household members who reside in the property and who are listed as dependents in the Borrowers' Federal Income Tax returns.
10. **Domestic Partner:** As defined in Family Code Section 297-297.5.
11. **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.

12. **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 TND application.
13. **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).
14. **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.
15. **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 TND Program Manual.
16. **Home:** Any residential property which the borrower or any of the borrower's household has ever owned and designated as their Principal Residence.
17. **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 TND Program Manual.
18. **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.
19. **HUD:** The U.S. Department of Housing and Urban Development.
20. **In-Law Units:** An area within the property that is autonomous from the principal residential area and has been constructed or converted to accommodate a living space for a separate household complete with kitchen and bath.
21. **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.
22. **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".
23. **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.
24. **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**").
25. **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.

26. **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 TND program in writing.
27. **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.
28. **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.
29. **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.
30. **Regulations:** The Regulations for TND as adopted by the Board of Supervisors of the City and County of San Francisco and as amended from time to time.
31. **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.
32. **SFMSA:** San Francisco Metropolitan Statistical Area.
33. **SFUSD:** San Francisco Unified School District.
34. **SFUSD Educators:** All United Educators of San Francisco (UESF) members, including teachers, paraprofessionals, and other certificated staff (e.g., counselors, deans, nurses, speech pathologists, psychologists, behavioral analysts, social workers, Special Education (SPED) Content Specialists and librarians), and also including those who work in the SFUSD Early Education department.
35. **Single Family Residence:** A single-family one-unit residence.
36. **Spouse:** A partner in a marriage.
37. **Total Transaction Costs:** The cost of the purchase of a home, including the sales price, closing costs and transactional fees.
38. **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) TND Loans will be made from the available funding sources for the purpose of providing assistance to educators employed with the San Francisco Unified School District (SFUSD) on a full-time basis with the purchase of their first home in San Francisco.
- 2) TND funds are limited to providing loans to eligible First Time Homebuyer households whose Household Income of all members at the age of 18 and older do not exceed 200% of the Area Median Income (AMI) for the SFMSA, as determined in accordance with Section II(A) below.
- 3) TND funds must be used towards the purchase of a qualified housing unit as either downpayment or closing costs. No more than \$250 proceeds can be directly given to any borrower.
- 4) TND can be used to purchase a BMR or a market rate unit in conjunction with any other subordinate financing (such as DALP) as long as the borrower meets all used program qualifications.

## II. PROGRAM REQUIREMENTS

### A. BORROWER ELIGIBILITY REQUIREMENTS

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

- 1) **TND Borrowers:** must be educators currently employed with the San Francisco Unified School District (SFUSD) on a full-time basis. SFUSD Educators are all United Educators of San Francisco (UESF) members, including teachers, paraprofessionals, and other certificated staff (e.g., counselors, deans, nurses, speech pathologists, psychologists, behavioral analysts, social workers, Special Education (SPED) Content Specialists and librarians), and also including those who work in the SFUSD Early Education department. At the time of application, the Borrower must provide a copy of a California teaching credential and written verification of employment from the SFUSD.
- 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 TND application. The period shall be counted backwards from the TND 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) for the SFMSA as published by MOHCD. The amounts are adjusted on an annual basis. As of March 28, 2016, the income limits are 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 set forth on each applicant's past three income statements for 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 TND. 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 TND application processing for MOHCD to validate applicant's unemployment and income.

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

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:** The combined household liquid assets after purchasing the property cannot 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:** Income and assets documents must be no more than 60 days old at the time of submission of the TND 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) Eligible Household Member

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

- 1) On all title and loan documents for the property. All spouses or domestic partners must be included in the household and must appear on the application, title and loan for the TND loan.
- 2) As a dependent on the tax returns - All household members who are under 18 years of age must be the legal dependent of an adult household member. An unborn child will be counted

as a household member with verifiable medical documentation. Elderly adult household members may be considered as dependent as long as they are listed as a dependent on the most recent tax return. All income from dependent adults and children must be included in the total household income. Spouses and Domestic Partners are not considered dependents.

**Household Size Compatibility:** The size of a household must be compatible with the size of the unit being purchased. A minimum of one person per bedroom is required. In other words, a single person may purchase a studio or a one-bedroom unit; a two-person household may purchase a two-bedroom unit or a smaller unit if they choose; a three-person household may purchase a three-bedroom unit; and so on.

**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, 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 during the life of the loan 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 Down payment 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](http://www.sfmohcd.org) or post on [www.homeownershipsf.org](http://www.homeownershipsf.org). Certificates must have been dated within the last 12 months from the date of the application submission for TND.

- 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 TND.
- 11) **Conflict of Interest:** The purpose of the homeownership loans and housing programs administered by MOHCD is to assist low-income and middle-income households with reaching the goal of homeownership, and to increase housing opportunities in San Francisco. MOHCD employees are eligible to participate in these programs with the exception of those employees who directly implement or approve homeownership loans or assistance, including: the Director, Director of Homeownership & BMR Programs, Chief Financial Officer, and other program and fiscal managers and staff who qualify, review, approve or disburse MOHCD's homeownership and housing program loans. This policy also applies to immediate family members of said staff including spouse and children.

## B. PROPERTY ELIGIBILITY REQUIREMENTS

- 1) **Property Requirements:** All properties purchased with TND 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). TND borrower cannot purchase a housing unit in which any unlawful rental eviction has occurred.
- 3) **Property Size Requirements:** Property size must be compatible with the size of the household. A minimum of one person per bedroom is required. There is no restriction on purchasing a housing unit that has fewer bedrooms than the household size. Properties containing rental units and in-law units in addition to the unit to be purchased are not eligible for a TND loan.
- 4) **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 TND application. The appraisal report should be no more than 90 days old at the time of submission of the TND loan application.

## III. FINANCING REQUIREMENTS

- 1) **General Loan Requirements:** Borrowers who apply for TND funding must be able to qualify for a first mortgage from a Participating Lender prior to submitting an application for a TND 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 TND loan must be in junior lien position behind the first mortgage, BMR lien and/or DALP.

**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 TND 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:** TND 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 TND Loan Amount:** is \$20,000. Qualifying loan amounts are based upon Household Income and debt to income ratio.
- 3) **TND Loan Reservation:** TND 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) **TND Loan Term:** The term of the TND is 10 years. There is no interest, nor shared appreciation. The loan is due upon sale, rent or title transfer of the property. Borrower must remain an educator with SFUSD during the entire loan term. If any defaults occurred within 5 years of the date the loan is issued, the loan must be paid back in full.

If at any time during the 10 year period, Borrower is no longer with SFUSD, but can document that termination of employment from the SFUSD was due to a) long-term disability, b) elimination of the borrower’s position, or c) a reduction-in-workforce, and also document continuity of occupancy, Borrower may begin making monthly payments of principal balance per the chart below. In this case, the remaining principal balance shall be amortized over a maximum 5-year period until the balance of the loan is paid in full. The Chart below illustrates how monthly payments shall be structured.

Year 1	\$20,000	\$333.33	Year 6	\$16,000	\$266.66
Year 2	\$20,000	\$333.33	Year 7	\$12,000	\$200.00
Year 3	\$20,000	\$333.33	Year 8	\$ 8,000	\$133.33
Year 4	\$20,000	\$333.33	Year 9	\$ 4,000	\$66.66
Year 5	\$20,000	\$333.33	Year 10	\$ 2,000	\$33.33

After the 5<sup>th</sup> year, the loan is forgiven at rate of 20% per year, and at the end of the 10<sup>th</sup> year, the loan is forgiven in its entirety. The following chart illustrates repayments of TND loans.

If the property is sold, rented or title transferred, or if the borrower leaves the SFUSD for reasons other than listed above, the following is due back to the City in a lump sum amount:

Loan amount \$20,000

Year 1	\$20,000	Year 6	\$16,000
Year 2	\$20,000	Year 7	\$12,000
Year 3	\$20,000	Year 8	\$ 8,000
Year 4	\$20,000	Year 9	\$ 4,000
Year 5	\$20,000	Year 10	\$ 0

- 5) **Maximum Combined Loan-To-Value Requirement (CLTV):** The maximum CLTV cannot exceed 95%, which includes the first mortgage, TND 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 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.

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 TND 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) **Prepayment Penalty:** There is no prepayment penalty associated with payment of these loans prior to the due date. However, prepayment must be in full; the loan cannot be partially repaid.
- 9) **Assumable/Transferable:** The MOHCD TND loans are not assumable or transferable. The loans must be paid in full upon sale, rent or title transfer of the property, or upon borrower's unemployment with the SFUSD at any time during the entire loan term.
- 10) **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. Please visit our website at [www.sfmohcd.org](http://www.sfmohcd.org) for the Loan Pay-off Checklist Packet.
- 11) **Refinance/Subordination:** The TND 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 TND loan will subordinate to the new first mortgage.

**Subordination Requests:** Borrowers must work with one of our approved lending officers to refinance their TND Loans. This applies to funding lenders as well when borrowers are working with a mortgage broker. Please visit our website at [www.sfmohcd.org](http://www.sfmohcd.org) for the Subordination Checklist.

**Home Equity Lines of Credit and Home Equity Loans:** MOHCD does not allow TND 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 TND loans. The TND loan program will be immediately due and payable if a Borrower is deemed out of compliance with this policy or any other applicable program policies.

**12) Tax Reporting:** MOHCD issues a **Form 1099-C Cancellation of Debt** to borrowers who get their TND loans forgiven during the previous calendar year. To ensure that correct taxpayer information is used for 1099-C reporting, borrower must provide a Form W-9 Request for Taxpayer Identification Number and Certification if signed tax returns and/or signed Form 4506-T Request for Transcript of Tax Return is not in file. Additionally, borrower must evidence continued service and owner occupancy by the end of loan term to satisfy the loan repayment obligations. For more details regarding the information provided on Form 1099-C, please view the Form 1099-C and its instructions on the IRS website ([www.irs.gov](http://www.irs.gov)). Borrowers shall consult a tax advisor for full details of its tax effects.

**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 Teacher Next Door 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 Teacher Next Door loan. It should be noted that all borrowers to teacher next door 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 TND 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 TND 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 Particular Lender, MOHCD may discontinue the use of said lender for TND.

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.

**TND 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. TND 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 copy of a California teaching credential.
- Provides a written verification of employment (VOE).
- 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 TND loan.
- **Lender further acknowledges that MOHCD requires an additional 4 business days to fund all TND 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
- No admin fee for TND only. If combined with MCC and/or DALP, a non-refundable cashier's check payable to the City and County of San Francisco. 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)
- Borrower(s) three most current & consecutive pay stubs
- Verification of Employment (VOE)
- Borrower(s) copy of a California teaching credential
- 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
- 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 (TND Note);
- Copy of the signed City Escrow Instructions;
- Certified copy of the executed City notes (TND Note);
- Certified copy of the executed City deeds (TND 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

### VII. 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 TND Applications to Another Lender:** If an applicant changes from one Participating Lender to another after the TND 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 TND 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.