

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



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**American Dream Downpayment Initiative (ADDI)
(for Below Market Rate Program Units)
Operating and Procedures Manual
May 10, 2010**

**CITY AND COUNTY OF SAN FRANCISCO
MAYOR'S OFFICE OF HOUSING
American Dream Downpayment Initiative (ADDI) Program
(for Below Market Rate Program Units)**

PROGRAM DESCRIPTION

A. INTRODUCTION

The purpose of the American Dream Downpayment Initiative (ADDI) Program is to support existing homeownership programs targeted at low-income households. The Mayor's Office of Housing administers several programs to assist low-income first time homebuyers. The ADDI will be used to provide downpayment assistance loans to households at or below 80% of the Housing and Urban Development (HUD) Department low income limits to purchase below market rate (BMR) condominium units. ADDI funds have been allocated to BMR units in an effort to assist lower-income households in becoming homeowners in San Francisco and because the Mayor's Office of Housing currently is unable to offer any other Downpayment assistance to BMR buyers. ADDI 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, trust fund, or similar asset that is not available for purchase of the property or liquidation.
2. **Back-end ratio:** 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, or other official designated by the Mayor of the City and County of San Francisco.
6. **Dependents:** 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 ADDI 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 loan from the City who has not owned any interest in a dwelling unit, any commercial real estate, or any land for last three year prior to the application date for the City loan.
10. **Front-end Ratio:** 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:** The anticipated income of a borrower or household member for the twelve-month period following the date of determination of income.

12. **HUD:** The federal Department of Housing and Urban 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:** The ratio between the amount of all indebtedness likened or to be liened against a property to the appraised value of the property securing the liens.
16. **Mayor's Office of Housing ("MOH"):** 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:** ADDI 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 low income Limits as defined by HUD 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 MOH 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 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 for borrowers to be eligible for funding under the requirements of the ADDI:

1) Income and Asset Requirements:

- a. **Maximum Income Limits:** The household income of any Borrower cannot exceed 80% of the HUD low income Limits as published by HUD and 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 ADDI 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.

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 a monthly income amount. The monthly income amount will be multiplied by 12 to derive the annual income.

Self-employed Borrower must provide:

- Self-employed Affidavit.
- All Profit and Loss statements from the past 3 years.
- A Profit and Loss statement for the current year.
- Copies of all invoices and payments made to the borrower as a part of self-employment in the current calendar year.

Example:

Year-to-date net income is \$32,000 for 5 months on the P/L Statement
Estimated Income amount = \$32,000 divided by 5 = \$6,400
Total number of the year is 12 months
Annualized Income = \$6,400 x 12 = \$76,800

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 in the event that the borrower is not able to provide the Mayor's Office of Housing with paystubs or other documentation of regular income.

Asset Test

Available Assets do not include funds held in pension accounts, retirement funds, 401(k) plans, trust funds, 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. Evidence that assets have been transferred to another individual or into an unavailable asset account to avoid use in the purchase will result in disapproval of the Borrower's application.

The Mayor's Office of Housing 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 ADDI application.) Assets also include any money that will be used toward a down payment. 10% of all assets between \$30,001 and 130,000 will be added to the total household income; and 35% of assets above \$130,000 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:

Household of 3 earns \$50,000 a year
Total household assets = \$150,000
First \$30,000 of assets is excused: \$150,000 - \$30,000 = \$120,000 remaining
10% of first \$100,000 remaining is added to income: \$100,000 x 10% = \$10,000
35% of all remaining assets is added to income: \$20,000 x .35 = \$7,000
Total amount added to income: \$10,000 + \$7,000 = \$17,000
New total household income: \$50,000 + \$17,500 = \$67,500

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 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 gross income calculations.

Verification of Employment and other supporting documentation regarding income such as pay stubs should be no more than 60 days old at the time of submission of the ADDI loan application.

2009/20010 Income Limits as follows:

Household Size	One	Two	Three	Four	Five	Six	Seven
80% of HUD low Income Limits	\$63,350	\$72,400	\$81,450	\$90,500	\$97,700	\$104,950	\$112,200

- 2) **First Time Buyer Requirements:** The ADDI 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.
- 3) **Minimum Downpayment Requirement:** The ADDI has a 2.5% of purchase price minimum downpayment requirement from the borrower.
- 4) **Primary Financing:** Any Borrower applying for mortgage assistance funding must qualify for first 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 an ADDI 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 can be 30 years fixed or 40 year fixed, the mortgage payment should includes 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 maximum purchase price, which include the first mortgage, and any other junior mortgages needed to close the affordability gap, including the ADDI loan.

Loan Assumption: ADDI loans are not assumable. The loan must be paid in full upon the sale, rent or title transfer of the property.

Subordination/Refinance: The ADDI 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.

- 5) **Homebuyer Education Requirements:** All approved ADDI loan borrowers will be required to complete the first-time homebuyer education course through one of MOH's 5 approved housing counseling agencies (see page 11 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 10 of this manual. Certifications must have been issued within one year from the date of the application for ADDI Loan.
- 6) **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 ADDI loan 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.
- 7) **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 33 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 45 percent of the borrower's gross income.

- 8) **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. 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; a three-person household may purchase a three-bedroom unit.

E. PROPERTY ELIGIBILITY:

1. All properties purchased with ADDI loan funds must be Below Market Rate units (BMRs) administered by either the Mayor's Office of Housing.
2. The maximum price for BMR units is determined by the Mayor's Office of Housing according to a formula designed to make them affordable to households 80% or less of the HUD low income Limits of the area median income.

F. LOAN TERMS

Loans provided by the San Francisco ADDI must meet with the following terms:

1. Maximum Loan Amount: For 2010 the maximum loan amount is \$10,000 or 6% of the purchase price, whichever is greater.
2. Terms of the loan and repayment The ADDI 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 as calculated by a net appreciation formula described below.

The proportional share shall be based on the ratio of the ADDI loan amount to the purchase price of the property or the fair market value 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 sales price or current fair market value 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 (sale or rental).

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.

G. 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):	\$80,000
Purchase price of a property:	\$250,000
Borrower’s Downpayment:	\$6,250
Amount of ADDI funds available:	\$15,000
First Mortgage Amount:	\$228,750

H. SAMPLE CALCULATION OF REPAYMENT OBLIGATION

The following examples illustrate the possible repayment scenarios at resale:

a.	Loan Principal:	\$6,250
b.	Original Purchase Price:	\$250,000
c.	Appreciation Share (A ÷ B)	6%
d.	*New Sales Price:	\$280,000
e.	Appreciation (D - B)	\$30,000
f.	Appreciation Share (C)	6%
g.	Appreciation Share Amount (E x F)	\$1,800
h.	Total Due to City (a + g)	\$31,800

* "New Sales Price" is used as a sample calculation only.
 BMR sales price appreciation is not guaranteed.

I. PARTICIPATING LENDER’S PROGRAM PROCEDURES

Eligible borrowers apply for ADDI funding through Participating Lenders. Participating lenders may submit applications only after determining that the borrower is approved for a first mortgage and approved to purchase BMR unit. Applications must be complete with all required attachments. ADDI 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 ADDI Program Manual.

All participating lenders must attend all of the required MOH lender training; sign the **Lender Participation Agreement** to become one of the ADDI certified lenders (see Participating Lenders list at www.sfgov.org/moh).

The Mayor's Office of Housing will act as the Program Administrator. MOH may delegate part of its administrative functions to Participating Lenders through the Lender Participation Agreement.

ADDI LOAN PROGRAM PROCESS

1) Borrower's Responsibilities:

- Enters into a purchase agreement with a seller or developer of the BMR unit.
- Obtain BMR approval letter from MOH.
- Applies to a Participating Lender for Primary Mortgage Loan.
- Provides a signed and dated addendum Application for ADDI.
- Provides a signed and notarized copy of the first time homebuyer affidavit
- Provides a signed and notarized copy of Income Tax Affidavit-If applicable.
- Provides a signed and notarized copy of First Time Homebuyer Affidavit.
- Provides the lender with income verification documentation as required by the guidelines to establish program eligibility.
- 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
- Upon approval of ADDI 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 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 review and verified the borrower's credit report to ensure the borrower qualify for the Cal DALP loan.
- Performs Standard Lender underwriting process.

Lender Submits to the City:

- Transmittal Form ADDI Loan Application received from borrower
- Ratified Sales Agreement
- Copy of BMR approval letter from MOH
- Preliminary Title Report
- Fair Market Value Appraisal
- First Mortgage Approval Letter and 1008 form from lender.
- Copy of the first mortgage loan application (1003 form, signed and dated by the borrower)
- Copy of underwriting and transmittal summary (1008 form)
- Fully executed Lender's Certification
- Gift Letter (if applicable)

City Responsibilities:

- Reviews loan package to ensure completeness and determines whether all necessary forms and certifications are included and fully executed. Incomplete loan packages will be return for completion within 3 working days.
- City evaluates borrower eligibility.
- City notifies Lender of approval or denial within 10 working days from submission of a complete loan package.
City 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.
City 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. See attached copies of the required loan package summary and forms.

City loan processing, review, underwriting and approvals, funding will take 15 business days. Please inform the buyer, seller, realtors or sales representatives and escrow involved with the transaction. There are no

exceptions to this time line.

**City and County of San Francisco
MAYOR'S OFFICE OF HOUSING (MOH)
FIRST-TIME HOMEBUYER PROGRAMS**

Approved Homebuyer Counseling Agencies (version 2/9/10)

Asian, Inc.
1167 Mission Street
San Francisco, CA 94103
(415) 928-5910
Nobby Cheng
ncheng@asianinc.org
www.asianinc.org

Mission Economic Development Agency (MEDA)
2301 Mission Street, Suite 301 (3rd Floor)
San Francisco, CA 94110
(415) 282-3334 x129
Elisa Baeza
ebaeza@medasf.org
www.medasf.org

Consumer Credit Counseling Service of San Francisco (CCCSSF)
595 Market Street, 15th Floor
San Francisco, CA 94105
(415) 788-0288 x 147
Matthew Rizzie
mrizzie@cccssf.org
www.housingeducation.org

San Francisco Housing Development Corporation (SFHDC)
4439 3rd Street
San Francisco, CA 94124-3117
(415) 822-1022 x112
Ed Donaldson
buyahome@sfhdc.org OR
ed@sfhdc.org
www.sfhdc.org

San Francisco Urban Community Housing Corporation (SF Urban CHC)
1730 O'Farrell Street Suite 124
San Francisco, CA 94115
(415) 252-0949 x111
Tiffany Frazier
tfrazier@surbanhc.org
sfurbanhc.org