

**City and County of San Francisco
Mayor's Office of Housing and Community Development
Edwin Lee, Mayor**



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

January 2014

IMPORTANT NOTE TO THE READER

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

I/We the undersigned hereby acknowledge and accept the loan terms as described in this First Responders Downpayment Assistance 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 Borrower- Date

Buyer: _____
Name of Borrower- Date

CITY AND COUNTY OF SAN FRANCISCO
Mayor's Office of Housing and Community Development (MOHCD)
First Responders Downpayment Assistance Loan Program (FRDALP)

A. INTRODUCTION

First Responders Downpayment Assistance Loan Program (FRDALP) provides down payment assistance loans to active uniformed, sworn members of the San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD) and San Francisco Sheriff's Department (SFSD) to purchase their first home in the City and County of San Francisco. Loan funds have been made available through the Housing Trust Fund established pursuant to San Francisco Charter Section 16.110. The FRDALP is a silent second loan that requires no payments for 30 years. The principal amount plus a share of the appreciation (profit) shall become due and payable at the end of the term, or repaid upon sale, transfer or rental of the property.

This manual describes the program guidelines and processing procedures for the FRDALP. It also establishes the roles and responsibility 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.

B. DEFINITIONS

1. **Appreciation:** An amount representing the increased value of a property determined by comparing the fair market value (FMV), or sale price of a property from the time of the original purchase to the new FMV or sale price at the time of resale.
2. **Back-end ratio:** The ratio between monthly household income and monthly housing costs plus all payments on installment debts.
3. **Borrower:** The person assuming the loan and holding title to the property.
4. **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.
5. **Dependents:** The household members who reside in the property and who are listed as dependents in the Borrowers' Federal Income Tax returns.
6. **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.
7. **First-time Homebuyer in San Francisco:** A person who has not owned any interest in a Principal Residence in San Francisco during the last three years and must not own an interest in any other Principal Residence at close of escrow.
8. **First Responder:** An active uniformed, sworn member of the San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD) and/or San Francisco Sheriff's Department (SFSD)
9. **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).
10. **Gross income:** The anticipated income of a borrower or household member for the twelve-month period following the date of determination of income.

11. **Household Income:** All sources of income from which the Borrower(s), and any other person 18 years of age or older 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).
12. **Loan-to-value-ratio:** The ratio between the amount of all indebtedness lien or to be liened against a property to the appraised value of the property securing the liens.
13. **Liquid Assets:** Liquid assets include all sources of monies from savings, checking accounts, investments or any fund that is available to liquidate held by any occupant of the Borrower's household, including minors. Liquid Assets will not include funds held in a pension account, retirement fund, 401K plan, or similar asset that is not available for purchase of the property or liquidation without substantial financial penalty to the Borrower. The value of equity in real property is to be considered in the liquid assets. Personal property such as household furnishings, tools of trade or employment, or automobiles are NOT considered liquid assets.
14. **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 San Francisco Charter Section 16.110.
15. **Maximum Income:** FRDALP is available to First Time Homebuyer household whose combined annual income of all members at the age of 18 and older do not exceed 200% of the median income for the San Francisco Metropolitan Statistical Bay Area as published by MOHCD. The amounts are adjusted on an annual basis.
16. **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.
17. **Participating Lender:** Lending institutions that have demonstrated their ability to provide loan origination services and perform other duties within applicable laws and the Regulations.
18. **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.
19. **Principal Residence:** (1) A Single-Family Residence, (2) Condominium or (3) Townhouse. It does not include limited cooperatives (such as timeshares), recreational vehicles, campers, or similar vehicles. The Borrower must occupy the Principal Residence substantially for entire term of the loan.
20. **Purchase Price:** The cost of acquiring a residence, excluding usual and reasonable settlement or financing costs.

C. PROGRAM REQUIREMENTS

BORROWER ELIGIBILITY REQUIREMENTS

- 1) FRDALP Borrowers must be an active uniformed, sworn member employed by the San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD) or San Francisco Sheriff's Department (SFSD). At the time of application, the Borrower must provide a copy of the written verification of employment from their department to MOHCD.
- 2) **First Time Home Buyer:** Borrowers and any other person 18 years of age or older who is expected to live in the residence must be a First-time Homebuyer in San Francisco.

3) **Maximum Income Limits:** The Borrower's annual Household Income cannot exceed 200% of AMI.

The following lists the maximum income limits as of January 1, 2014:

Household Size	1	2	3	4
200% AMI	\$135,900	\$155,400	\$174,800	\$194,200

Income Determination: The Household Income of a Borrower (or Borrowers) (as defined by Revenue Ruling 86-124) promulgated by the Internal Revenue Service is the Borrower's annualized gross income.

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.

Self-employment income can also be considered which varies from month to month. The gross annual income calculations will be based on the net income before taxes from the Borrower's or co-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 co-Borrower must provide:

- Self-employed Affidavit.
- All Profit and Loss statements from the past 3 years
- An estimated 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.

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

- *Unemployment Affidavit* that is signed, dated and notarized.
- Unemployment Affidavit must be used 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.

Interest earnings are computed on the net principal of the Liquid Assets at the current market rate after reduction of downpayment and closing cost requirements as applicable.

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 FRDALP loan application.

- 4) **Liquid Assets:** Combined household Liquid Assets after purchase of the property must not exceed \$100,000; all other Liquid Assets above \$100,000 must be used toward the downpayment. Evidence that Liquid 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.
- 5) **Minimum Downpayment Requirement:** The Borrower must contribute minimum of five percent (5%) of the purchase price toward the downpayment of the property. At least three percent (3%) must come from the Borrower's own funds from a verifiable source. The balance may be in the form of a grant or gift. Borrower must have sufficient funds to meet the required down payment, closing cost, necessary reserves and sufficient income to meet the monthly mortgage payments, property tax, homeowner insurance and homeowner association dues. Borrower is limited to a total down payment of 50% towards the purchase including any loan from the City.
- 6) **Homebuyer Education Requirements:** All adult household members will be required to complete the first-time homebuyer education course through one of MOHCD's 5 approved housing counseling agencies. 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: <http://sf-MOH.org/index.aspx?page=289> or post on www.homeownershipsf.org. Certifications must have been issued within the last 6 months from the date of the application submission for downpayment assistance loan.
- 7) **Owner-Occupancy Requirement:** All household members must occupy the purchased property as their Principal Residence within 60 days after the close of escrow and continuously thereafter, 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.
- 8) **Title Transfer Restriction:** Changes in the title are not permitted. However, deletion of a Borrower or co-Borrower from title may be allowed in cases of death or divorce.
- 9) **Non-Discrimination and Privacy Requirements:** All borrower eligibility requirements contained in this manual must be applied without regard to the race, creed, color, gender, religion or national origin of the borrower. Lenders shall be sensitive to the privacy interests of the borrowers, and should use the information received only for purposes of verifying the borrowers' eligibility for a downpayment assistance loan.

D. PROPERTY ELIGIBILITY REQUIREMENTS

Property Requirements - must be single-family residences (which include condominium and townhome) located in the City and County of San Francisco. Commercial properties, mixed use or investment properties are not allowed.

Appraisal Report – MOHCD Requires a fair market appraisal as part of the lending and closing process, a copy of the appraisal report must be attached to the FRDALP application (appraisal report should be no more than 90 days old at the time of submission of the FRDALP loan application).

E. FINANCING REQUIREMENTS

- 1) **Primary Financing:** Borrowers who apply for first responder's downpayment assistance loan must be able to qualify for a maximum first mortgage from a Participating Lender prior to submitting an application for a downpayment assistance loan. Borrowers must have sufficient funds to meet the required down payment, closing costs, and necessary reserves and sufficient income to meet the monthly mortgage payments. The FRDALP loan must be on second position behind the first mortgages.

First Mortgage Requirements: The first mortgage loan must use 30 year fixed rate mortgage, the mortgage payment must be fully amortizing.

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

Seller/Realtor/Lender Credits –Credit funds are allowed for non-recurring loan closing costs, all credits must be used in escrow, no cash back to the borrowers at close of escrow. The amount of non-recurring closing costs cannot exceed 5% of the sale price.

- 2) **Maximum FRDALP Loan Amount-** is up to \$100,000 or 15% of the purchase price whichever is less. Qualifying loan amount is based upon a graduated scale. Loan amount will be decreased by \$20,000 for every additional \$100,000 contributed by the Borrower above a 20% downpayment. At no time shall the FRDALP loans exceed 15% of the total purchase price. The maximum loan available per household depends on the household's income in relationship to the Area Median Income (AMI).

FRDALP is downpayment assistance loan, this loan cannot be used to pay for non-recurring loan closing costs and the borrower will be responsible for any escrow fee or closing costs associated with the completion of the transaction. Each household is limited to one loan, regardless of the number of First Responders in that household.

- a) **FRDALP Loan Reservation** – FRDALP Loan as specified in the commitment letter will be placed on reserve for a period of 45 days from date of the commitment
- b) **FRDALP Loan Term-** Loan is deferred for 30 years, due on sale, rent or title transfer. Borrower must remain a First Responder for a minimum of five years from the date the home is purchased. Should borrower's status change prior to five years, the full amount of the loan, plus share of appreciation is immediately due.

- 3) **Combined Maximum Loan-to-Value Requirement (CLTV)** cannot exceed 95% of the purchase price, which include the first mortgage; the First Responders Downpayment Assistance Loan and any other borrowed subordinate financing. No seller credit and cash back at close of escrow.

- 4) **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 28% (front-end-ratio) of the household's gross income. The ratio of monthly housing costs, plus all other household monthly debt (including credit cards, car payments, etc.) cannot exceed 43% (back-end-ratio) of the household's gross income.

- 5) **Repayment:** First Responders Downpayment Assistance Loan is deferred for thirty (30) years from the date of the initial purchase or until the sale of the property. The payoff amount due by Borrower is (i) the principal amount of the loan plus (ii) the proportional share of the appreciation of the property.

The proportional share is based on the ratio of the original downpayment assistance loan amount to the Purchase Price of the property or the Fair Market Value of the property at the time of purchase; whichever is higher. At the time that the property is sold or rented or refinance, the City will determine the value of the property at that time (hereafter the "Sale Price") based on the contracted sale price or the Fair Market Value at that time, whichever is higher.

The amount of appreciation is determined by subtracting the original Purchase Price from the Sales Price. If the Sales Price is not higher than the original Purchase Price, the Borrower shall be obligated to repay the principal amount of the loan only.

- 6) **Prepayment Penalty:** There is no prepayment penalty associated with payment of these loans prior to the due date (sale or rental). However, prepayment must be in full; the loan cannot be partially repaid.

- 7) **Assumable/Transferable:** The FRDALP loans are not assumable or transferable. The loans must be paid in full upon sale or title transfer of the property
- 8) **Payoff Requests-** MOHCD will need the following information for a payoff requests:
1. A written Payoff Request from borrower or a signed consent from borrower(s), if an individual other than the original borrower(s) is requesting the payoff.
 2. A current fair market appraisal report (appraisal report should be no more than 90 days old at the time of request for payoff).
- Upon receipt the above requested information, a payoff statement will generate within 5 – 7 business days.
- 9) **Refinance/Subordination** - FRDALP loan can be subordinated to the refinancing of the existing first mortgage for a lower interest rate and better loan term with no cash equity out of the property. If the refinance meets the City subordination requirements, the FRDALP loan will subordinate to the new first mortgage.

Subordination Requests - Borrowers must work with one of our participating lending officers to refinance their FRDALP Loans. For mortgage brokers, the funding lender needs to be approved as well. MOHCD will reject a subordination request for none participating lending officers. Please visit our website for Subordination Document Checklist: located in our website: <http://sf-MOH.org/index.aspx?page=294>

Home Equity Lines of Credit and Home Equity Loans - MOHCD does not allow FRDALP borrowers to open Home Equity Lines of Credit and Home Equity Loan. If borrowers who use such programs may be in violation of their Program restrictions and/or may not be allowed by MOHCD to refinance their FRDALP loans.

- 10) **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.
- Deed of Trust** - Execute 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** – Execute 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.
- 11) **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.

F. GENERAL LOAN REQUIREMENTS AND COMPLIANCE:

1. **Hazard Insurance:** For the entire term of the loan, Borrower will be required to maintain hazard insurance, including fire and extended coverage with a loss payable endorsement to the City and County of San Francisco, c/o Mayor's Office of Housing and Community Development.
2. **Title Insurance Policy:** The outstanding principal balance of the downpayment assistance loan must be covered by an ALTA Lender's Policy of Title Insurance naming the City and County of San Francisco c/o Mayor's Office of Housing and Community Development as it interests appear.
3. **Non-Discrimination and Privacy Requirements:** All borrower eligibility requirements contained in this manual must be applied without regard to the race, creed, color, gender, religion or national origin of the borrower. Lenders shall be sensitive to the privacy interests of the borrowers, and should use the information received only for purposes of verifying the borrowers' eligibility for a downpayment assistance loan. It should be

noted that all borrowers to downpayment assistance loan program are subject to the requirements of the Sunshine ordinance and may have any records provided to the City become a matter of public information upon appropriate request.

G. PROGRAM PROCEDURES FOR LENDERS

Eligible Borrowers apply for downpayment assistance loans through Participating Lenders or lending officers only. Participating Lenders may submit applications only after determining that the Borrower is eligible for a first mortgage and also eligible for the First Responders downpayment assistance loan. Borrowers' applications must be complete with all required attachments, including a ratified purchase agreement for the purchase of a specific property. Here is link to the list of participating lenders: <http://sf-MOH.org/index.aspx?page=792>

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.

The Mayor's Office of Housing and Community Development will act as the Program Administrator. If the City habitually receives incomplete or incorrect applications from a particular lender, MOHCD may discontinue the use of the lender as participating in the program.

FRDALP APPLICATION SUBMISSION

1. **Borrower's Responsibilities:**

- 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.
- Enters into a purchase agreement with a seller.
- Applies to a Participating Lender for Primary Mortgage Loan.
- Provides a signed and dated Loan Application for a First Responders Downpayment Assistance Loan (FRDALP-1)
- Provides a signed and notarized copy of Income Tax Affidavit (FRDALP-3)-if applicable
- Provides a signed and notarized copy of Unemployed Affidavit-if applicable
- Provides a signed and notarized copy of the First Time Homebuyer Affidavit (FRDALP-4).
- Provides written verification of employment as an active uniformed, sworn member with the SFPD, SFFD or SFSD.
- Provides a signed HomeownershipSF Consent Form
- Pay application fee in the amount of \$530 in cashier check; payable to the City and County of San Francisco.
- 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,
 - All Profit and Loss statements from the past 3 years (Schedule C)
 - A notarized estimated 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.
- Upon approval of downpayment assistance loan, the borrower signs a copy of the City's loan commitment letter indicating acceptance within 5 working 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-moderate income homebuyers
- 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 a 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.
- Performs Standard Lender underwriting process.

Submits to the City:

THE APPLICATION PACKAGE MUST BE BOUND IN LEGAL SIZE MANILA FOLDER WITH TWO FASTENERS

- Program Application received from borrower [FRDALP-1]
- Non-refundable application fee, a cashier's check from the Borrower(s) in the amount of \$530 (or \$640 if use MCC program together with FRDALP)
- Fully executed Lender's Certification [FRDALP-2]
- Borrower's household income verification documentation (three current and consecutive pay stubs or provide a copy of current Profit and Loss Statement if self-employed).
- Last three years of Federal Income Tax Returns (signed and dated), along with corresponding schedules and W-2s.
- Income Tax Affidavit (if applicable) [FRDALP-3]
- First Time Homebuyer Affidavit [FRDALP-4]
- written verification of employment as an active uniformed, sworn member with the SFPD, SFFD or SFSD
- Homebuyer Education Certificate
- HomeownershipSF Consent Form
- Financial Statements (declaration of Assets)
- Gift letter (if applicable)
- Sign IRS Form 4506.
- Preliminary Title Report
- Wire Instructions
- Receipt for Escrow Deposit
- Ratified Sales Agreement (including all counter offers).
- A copy of Inspection or Contractor Report of the Property
- The General Release and Waiver of Liability.
- Fair Market Value Appraisal
- First mortgage loan application (1003)
- First Mortgage Approval Letter and 1008 form from Lender
- A Copy of Good Faith Estimate (GFE) or Estimated Settlement Statement (HUD-1)
- A copy of Borrower's Credit Report

3. City Responsibilities:

- Reviews loan package 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. From the day of commitment, we will need another 7 business days for funding.
- 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 delivered to MOHCD for review before funding:

- The executed original City notes (FRDALP Note);
- Certified copy of the executed City notes (FRDALP Note);
- Certified copy of the executed City deeds (FRDALP Deed);
- Certified copy of the Grant Deed;
- Certified copy of the Requested for Copy of Notice of Default;
- Certified copy of the First Deed of Trust;
- Certified copy of the First Note;
- Certificate of Homeowner Insurance Policy;
- An estimated HUD-1 Settlement Statement; and
- Any other liens behind the City loans.

Physical copies of all the above requested documents must be delivered to MOHCD 4 working days in advance before request for funding.

Funds will be wired to the escrow account after we receive all closing documents requested in item 4 by 11 a.m., the fund will be wired in the 4th working days. If we receive the closing documents after 11 a.m. the fund will be wired on the 5th working day.

- 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.

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 may be disqualify the applicant for approval.

MOHCD's approval is final, if the first mortgage loan amount & term changes before close escrow, additional documents must be submitted to City for reassess the FRDALP loan amount.