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CITY-WIDE



FIRST TIME HOMEBUYER



SHARED APPRECIATION LOAN AND

CLOSING COST ASSISTANCE GRANT



COMPREHENSIVE PROGRAM MANUAL

Effective June 24, 2009



PURPOSE OF THE PROGRAM MANUAL

This document contains a description of the San Diego Housing Commission (SDHC) City-wide First Time Homebuyer Loan Program requirements, processing procedures and program administration. Loan processing forms are contained in a separate document. SDHC may revise these guidelines from time to time, terminate and/or place the program on hold at its sole discretion.

SDHC encourages all eligible homebuyers to apply. Participating lenders are expected to be well informed about all the restrictions contained in this manual so that both applicants and sellers are aware of these restrictions before the application is accepted. Lenders are also expected to be informed of the Department of Housing and Urban Development's (HUD) technical guide for determining income and allowances for the HOME Program for calculating annual gross income. SDHC will reject those applications where the information submitted indicates the applicant does not qualify for the program.

GENERAL DEFINITIONS

AFFIDAVIT: A deposition filed in connection with the program made under oath and subject to penalties of perjury.

APPLICANT: Any person within the household who applies for SDHC loan assistance.

APPRAISAL: In compliance with URA at 49 CFR Part 24. All appraisals to determine property value must be made by a licensed appraiser.

ARMS LENGTH TRANSACTION: A transaction in which the applicants and sellers of a product act independently and have no relationship to each other. The concept of an arms length transaction is to ensure that both parties in the deal are acting in their own self interest and are not subject to any pressure or duress from the other party.

ASSETS: Cash or a non-cash item that can be converted to cash. Assets exclude necessary personal property and retirement accounts.

CAPITAL IMPROVEMENTS: The addition of a permanent structural improvement or the restoration of some aspect of a property that will either enhance the property's overall value or increases its useful life.

COMMITMENT: A document which is originated by SDHC once the file has been approved.

DISPLACED HOMEMAKER: A displaced homemaker is an adult who has not, within the preceding 2 years, worked on a full-time basis as a member of the labor force for a consecutive 12-month period and who has been unemployed or underemployed, experienced difficulty in obtaining or upgrading employment and worked primarily without remuneration to care for his/her home and family.

ELIGIBLE BORROWER: Any person meeting the criteria as set forth in this manual.

ELIGIBLE DWELLING: Real property located in the City of San Diego which includes a new residential unit (not previously occupied), or an existing home which has been previously occupied. Eligible properties include single family dwellings, condominiums and townhomes.

GROSS APPRECIATION: The difference between the original purchase price paid by the borrower and the sales price or appraised value at the time of sale.

HOME INVESTMENT PARTNERSHIP PROGRAM (HOME): Elements of the Shared Appreciation First Time Homebuyer Program utilize Home Investment Partnership program regulations. HOME regulations under the Department of Housing and Urban Development (HUD) are codified at 42.U.S.C. Section 12701, et seq., 24 CFR Part 92.

HOMEOWNER INVESTMENT: Homeowner's initial down payment.

HOUSEHOLD: All persons who currently reside together and will continue to reside in the residence being purchased and function as a cohesive unit.

INCOME: The gross amount of all income for all applicants and adult household members that is anticipated to be received during the coming twelve (12) months, as defined in The HUD's technical guide for determining income and allowances. All income derived from any source, including income from wages (gross pay), overtime, pensions, veterans compensation, bonuses, public assistance, alimony, net rental income, dividends and interest, etc. must be included.

LENDER: A financial institution, whether broker, retail, or wholesale, licensed to provide mortgage loans in the State of California. The institution must meet all the requirements established by SDHC in order to participate as a lender in the program.

LIQUID ASSETS: The total amount of funds that are in the form of cash or can quickly be converted to cash. These include (1) cash; (2) demand deposits; (3) time and savings deposits; and (4) investments (i.e. most stocks, money market instruments and government bonds) capable of being quickly converted into cash without significant loss, either through their sale or through the scheduled return of principal at the end of a short time remaining to maturity.

LOAN: An extension of credit provided to an eligible applicant to finance the purchase of an eligible dwelling.

LOW-INCOME: A household with income not greater than 80% of the area median income as established by HUD. Every 12-18 months, these figures are updated by HUD.

NET APPRECIATION: The gross appreciation less, applicable closing costs paid by the borrower at the time of purchase, the applicant's cash contribution in the original purchase, and any SDHC approved capital improvements.

NET PROCEEDS: Sales price minus loan repayment and closing costs.

OWNERSHIP: Any of the following interests in residential real property:

- fee simple interest
- joint tenancy
- tenancy in common
- interest of a tenant-shareholder in a cooperative
- life estate
- interest held in trust for the applicant that would constitute a present ownership interest if held by the applicant

Ownership does not include a remainder interest, a lease with or without an option to purchase or any interest acquired on the execution of the purchase contract.

PRINCIPAL RESIDENCE: Residence must be occupied as the primary home of the applicant and be defined as one of the following types of residences: 1) single-family house; 2) condominium unit; 3) town home unit.

PROHIBITED MORTGAGE: Second trust deeds and any other lien superior to the shared appreciation loan, other than the new first trust deed are prohibited.

PROPERTY STANDARDS: Minimum performance standards a property must meet for program eligibility. Standards are established in 24 CFR Part 882; Housing Quality Standards (HQS).

PROPERTY VALUE: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the applicant and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Property / market value must be identified through an appraisal and provided prior to the acquisition issuance.

PURCHASE PRICE: Cost of acquiring the residence, excluding usual and reasonable settlement or finance costs, and the value of services performed by mortgagor in completing the acquisition.

RELATED PERSON: Allied by nature, origin, kinship, marriage, etc.

RESIDENTIAL PROPERTY: Property which is zoned for single-family homes, multi-family apartments, townhouses, and/or condominiums.

SDHC: San Diego Housing Commission (also referred to in this manual as “Housing Commission”).

SHARED APPRECIATION: A share of net appreciation paid by the borrower to SDHC equal to the percentage of SDHC’s investment in the original purchase.

SINGLE-FAMILY RESIDENCE: Housing unit intended and used for occupancy by one household.

PROGRAM ELIGIBILITY

Both federal and state laws set the requirements for applicant eligibility. Income guidelines are modified based on federal directives every twelve to eighteen months. The San Diego Housing Commission (SDHC) will notify the lenders when those changes take place, including the effective date of each change.

In an attempt to assure that all requirements are clear, the first time homebuyer application and affidavit are required to be signed by each applicant and must be included in the application package submitted to SDHC.

ELIGIBLE APPLICANTS

Qualified applicants must be first time homebuyers. The applicant may not have held an ownership interest in residential property within the past three years. This timeframe includes those 36 months previous to the date the mortgage is executed. In the case of a married couple, both parties must meet this requirement. The applicant, spouse and any other parties who will reside in the property must meet this requirement. The lender must verify this through his/her examination of the applicant's federal tax returns for the preceding three years, credit reports, and other relevant documentation. The applicant(s) cannot have claimed a deduction for mortgage interest or taxes on real property, except the following individual or individuals who may not be excluded from consideration as a first time homebuyer under the definition:

- A displaced homemaker who, while a homemaker, owned a home with his or her spouse or resided in a home owned by a spouse. A displaced homemaker is an adult who has not, within the proceeding 2 years, worked on a full-time basis as a member of the labor force for a consecutive 12-month period and who has been unemployed or underemployed, experienced difficulty in obtaining or upgrading employment and worked primarily without remuneration to care for his or her home and family; or
- A single parent who, while married, owned a home with his or her spouse or resided in a home owned by a spouse. A single parent is an individual who is unmarried and has one or more minor children for whom the individual has as least 51% custody.

To demonstrate compliance with this requirement, applicants must complete and sign the first time homebuyer application and affidavit and provide copies of their last three (3) years signed federal tax returns (or acceptable alternative exhibits).

The applicant(s) can provide the signed 1040A, 1040EZ, or 1040 federal income tax forms for the preceding years, including all schedules. These forms shall be submitted to the lender and forwarded to SDHC with the completed loan application. The tax returns must be signed and dated in blue ink by the applicants.

If the applicant(s) has filed their income taxes for the last three (3) years, but is unable to produce copies of the signed returns, SDHC will accept a completed copy of IRS form

1722 or a copy of the income tax transcripts in lieu of actual returns. The applicant may request either of these documents, free of charge, from the local IRS office. The letter and/or tax transcripts must be signed and dated by the applicant. The Form 1722 must include the signature of a representative of the IRS and should include the following information:

- Applicants' name and social security number
- Type of return filed
- Marital status
- Tax shown on return
- Adjusted gross income
- Taxable income
- Self-employment tax
- Number of exemptions

In the event the applicant(s) was not obligated to file federal income tax returns for any of the preceding three (3) years, it will be necessary for the lender to obtain a completed and signed *Income Tax Affidavit* from the applicant, which is required in place of the above. This document is to be forwarded with the application package.

If neither copies of the required tax returns or the 1722 Form can be obtained, the lender may be able to help the applicant establish first-time homebuyer status with copies of utility bills and a signed and notarized statement from the applicant's landlords for the previous three years.

When applying during the period between January 1 and February 15 and the applicant has not yet filed his/her/their federal income tax return for the preceding year, SDHC may rely on an affidavit. The affidavit must affirm that the applicant is not entitled to claim deductions for taxes or interest on a principal residence for the preceding year. After February 15, a tax return will be *required*.

Divorced / Separated: Any applicant with the marital status of "divorced" must provide legal documentation that specifies:

- They no longer have ownership interest in any real property
- If claiming a child under the age of 18 as part of the household, legal custody of at least 51% is required
- Claim any related child support and/or alimony income on the application.

Any applicant with the marital status of "separated" must provide the income of his or her spouse which *will* be included in the program eligibility income calculation.

Citizenship: Applicant(s) must be a U.S. citizen or Permanent Resident Alien. Applicants with a Permanent Resident Alien status must provide documentation, i.e. Permanent Resident Alien card, passport and / or INS documents.

A spouse and/or other household members who are not U.S. citizens or a Permanent Resident Alien *can* be included as household members, and *must* provide income documentation, but *cannot* be on the loan or on title.

INCOME CRITERIA

Income must be at or below 80% of the currently published area median income (AMI), adjusted for household size when applying for the shared appreciation loan and / closing cost assistance grant of 4% or \$15,000. Households at 81% to 100% AMI are eligible for a closing cost assistance grant up to 4% or \$10,000. Income limits have been established by HUD and are adjusted annually. In accordance with this requirement, applicants may not obtain “stated income” loans. The true income is the primary qualifying factor in loan approval.

Effective May 1, 2009

Household Size	80% Gross Annual Income	100% Gross Annual Income
1 person	\$46,250	\$52,450
2 people	\$52,900	\$59,900
3 people	\$59,500	\$67,400
4 people	\$66,100	\$74,900
5 people	\$71,400	\$80,900
6 people	\$76,700	\$86,900
7 people	\$81,950	\$92,900
8 people	\$87,250	\$98,850

Gross income is calculated by taking the applicant’s anticipated gross monthly income, at the time of application, and multiplying it by twelve. Gross income includes all sources of income, derived from: salary, base pay, overtime and/or double-time compensation, part-time earnings, bonuses, commissions, dividends, interest, royalties, pensions, veterans administration compensation, net rental income, alimony, child support, survivor benefits, foster care support, adoption care support, public assistance, social security benefits, unemployment compensation, income received from a trust, income received from business activities, bank accounts, investments, winnings, and any other source of income not listed above. Gross income includes the combined gross income of all applicants and all other adult members of the household.

Co-Borrower/Co-Mortgagor/Household: All household income must be included in determining eligibility for the program. The IRS regulation states “income to be taken into account in determining gross income is income of the applicant(s) and any other person who is expected to both live in the residence being financed and/or be secondarily liable on the mortgage.”

Spouses: Married couples are treated as co-applicants, whether:

- The applicant and spouse are separated
- Either spouse is applying for the loan
- Either spouse plans to be named on title

The income of both the applicant and spouse is considered in the income eligibility calculation, regardless of whether the spouse is on title. The non-borrowing spouse is required to sign the SDHC application, disclosures, and promissory note.

COMPUTING INCOME

Program Eligibility Computation vs. Underwriting Computation:

- The *eligibility* calculation represents ACTUAL / PROJECTED income of all adult household members.
- The *underwriting* calculation represents ACTUAL / AVERAGED income over the previous two years for all applicants who will be on title.

The program requires that every source of taxable and non-taxable income be listed on the application and proof of such income be provided.

Full Time Wage Earner: For the purpose of computing the gross income of a W-2 wage earner, the salary or base pay will be calculated by multiplying the hourly rate by the number of hours, then by the number of pay periods and divided by 12 months. If the applicant does not consistently work the same number of hours per pay period, the salary or base pay will be averaged over the previous two years, plus current year-to-date income. The applicant must have a two year work history in order to include the income for underwriting purposes.

Overtime, double-time, commissions, and bonuses etc., will be averaged over the previous two years and current year-to-date income. The applicant must have a two year history of overtime, double-time, commissions, and bonuses etc in order to use the income for underwriting purposes.

Self-Employed: The income for self-employed workers is calculated by averaging the previous two years adjusted gross income, plus any depreciation and/or depletion claimed on schedule C. A year-to-date signed and dated profit and loss statement is required.

Seasonal Employees: The income for seasonal workers is calculated by averaging the previous two years income as stated on the W-2 and verification of employment.

For unemployment benefits received in the off season of work, the gross income will be calculated by averaging the previous two years benefits. If in the off season during the period of application, proof of unemployment benefits must be provided.

Part Time and/or Second Job: The monthly income is calculated by averaging the previous two years gross income as indicated on the W-2, plus the current year-to-date income. For the purpose of computing the gross income for underwriting, the applicant must have a two year history of the part time, or second job.

Military Pay: For the purpose of computing the gross monthly income, the “total entitlement” shown on the applicants most recent monthly leave and earnings statement, including all regular pay, special pay and allowances including housing allowance. The “total entitlement” is *not* grossed up. Certain categories of pay, which may be received only sporadically, will be considered on a case-by-case basis. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire is *excluded* from gross income calculation.

Part or Full Time Students: Adult members (18 and older) enrolled in a vocational, community college or university must provide evidence of current enrollment status and a copy of their financial aid award letter. For the purpose of computing the gross income of any person(s) identified as an adult student and a member of the household, only the first \$480 of the student's *monthly* income is included in the calculation of household income. The \$480 limit does not apply to a student who is head of household or a spouse; in this case the full income must be counted.

Other Income: Sources of income other than wages must be documented by third party verifications. In cases where the third party fails to respond, acceptable alternative sources of documentation can be determined on a case-by-case basis and should follow standard income verification guidelines.

Documentation: In cases where the applicant is employed, the following sources of documentation are required to verify income:

- Recent pay stub with year-to-date earnings.
- Verification of employment (VOE). The VOE must be completed and signed by the applicants employer and must include the previous two years gross income, and the current year-to-date gross income. The salary or base pay, overtime, double time, bonuses, and commissions must be separated accordingly.

Documentation regarding income must be current within the most recent 30-day period preceding the loan closing. If the applicant has not been employed with the current employer for a full two years, a VOE from the previous employer is *required*.

The lender bears the burden of proving the buyer's income is within the program guidelines. The computation should be clear, complete, and documented by third party verifications, to the greatest extent possible.

No Income: Adult household members, 18 years and older, who have no income must complete and sign the *Declaration of No Income*.

Dependants: Any persons claimed on federal tax returns within the past three years and not identified as a member on the application must provide a *Declaration of Household Size* certifying those person(s) will not be residing as a member of the household.

Any person not claimed on the federal tax returns within the last three years, who *are* identified as a household member on the application must provide proof as an established household member. Acceptable sources of documentation include bank statements, drivers license, identification card, utility bills, etc.

HOUSEHOLD ELIGIBILITY REQUIREMENTS

Households shall have sufficient income and credit-worthiness to qualify for primary financing from a participating lender.

Households will be required to provide a down payment or cash investment. A minimum contribution of 3% of the total purchase price of the property will be required from the borrower's personal funds and must be used for down payment.

Cash gifts may be given towards the required 3% down payment. The gift must come from a family member and cannot be from a subsidy. A signed gift letter and proof of donor's ability to gift funds is required.

Asset Limitation: Maximum liquid assets after applicants 3% contribution and any required cash to close not to exceed \$10,000 for the first household member and \$500 for each additional household member. Retirement accounts including IRA's, 401K's and pensions are not included in the asset calculation. The asset calculation includes funds that are in the form of cash or can quickly be converted to cash including:

- Cash
- Checking / savings accounts
- Trust accounts
- Stocks
- Bonds
- Money market
- CD

SECTION II PROGRAM GUIDELINES

SHARED APPRECIATION LOAN

The maximum loan amount shall not exceed 17% of the purchase price. The shared appreciation loan has a 0% interest rate for a 30 year term. No monthly payments are required during the 30 year term. In addition to the principle balance, the buyer must also pay an amount equal to the net share of appreciation in value of the property. The principal and a share of the appreciation, if applicable, will be due in full upon the earlier of:

- 30 years from the date of the Promissory Note
- Upon sale
- Transfer
- Lease
- If the property is not owner-occupied
- Encumbrance of all or any interest in the property without SDHC’s prior written consent

The net appreciation is defined as the difference between the sales price and the sum of the following deductions:

- Original amount of first trust deed loan
- Original amount of Housing Commission loan
- All closing costs paid by applicant when the property is sold
- Cost of improvements approved by SDHC
- Real Estate Commissions paid by applicant when the property is sold

Example: The original purchase price paid for the property was \$215,000. The first trust deed is \$172,000 at 5.5%. SDHC made a shared appreciation loan in the amount of \$36,550, equal to 17% of the purchase price. The borrower made a down payment in the amount of \$6,450 equal to 3% of the purchase price. In year 12 of the applicant sells the property for \$350,000. The following is a hypothetical example of how the share of appreciation is calculated:

SHARE OF APPRECIATION CALCULATION	
Sales price in 12 years	\$350,000
Less original amount of 1 st Trust Deed	\$172,000
Less original down payment	\$6,450
Less SDHC approved improvements	\$15,000
Less commissions paid by applicant	\$17,500
Less closing costs paid at the time of sale	\$5,000
Equals Net Appreciation	\$97,500
Share of Appreciation due to SDHC (\$97,500 x 17%)	\$16,575
Shared Appreciation principal balance	\$36,550
Total due to SDHC	\$53,125

APPLICANTS NET EQUITY CALCULATION	
Sales price in year 12	\$350,000
Less <i>estimated balance</i> on 1 st trust deed	\$131,887
Less Shared Appreciation principal balance	\$36,550
Less Share of Appreciation	\$16,575
Applicants Net Equity	\$164,988

CLOSING COST GRANT

For households up to *80% AMI*, the maximum closing cost assistance grant is the lesser of *4%* of the purchase price or *\$15,000*.

For households *81% to 100% AMI*, the maximum closing cost assistance grant is the lesser of *4%* of the purchase price or *\$10,000*.

The grant can *only* be used to pay actual closing costs charged to the applicant which are not being paid by seller concessions or other subsidies. The grant is forgivable after 6 years. If the property is sold, refinanced, or no longer owner-occupied within the first 6 years, the grant must be repaid, plus *5%* interest.

LOAN AND GRANT PARAMETERS

Homebuyer Education: All applicant's and applicants spouse must attend an eight hour HUD approved homebuyer education class. The applicant must attend a class provided by one of the providers on the SDHC approved list.

Maximum Sales Price: The maximum sales price is \$451,250. Sales price limits have been established by HUD and are adjusted annually.

First Trust Deed loan: The first time homebuyer programs can *only* be used in conjunction with a 30 year fixed rate Conventional, FHA, VA 1st mortgage, or 203K.

Impounds: Applicant's are *required* to have an impound account for property taxes and hazard insurance with first trust deed lender.

Prohibited first trust deed loans: CALHFA, CALVET, Adjustable Mortgages, Interest Only, Negative Amortizations and temporary buy-downs are not allowed.

Loan To Value: The maximum combined loan to value (CLTV) of the first trust deed loan, shared appreciation loan and any other subordinate financing shall not exceed *97%* CLTV. The closing cost grant is not included in the CLTV calculation.

Subordinate financing: Subordinate financing is allowed provided the loan is deferred with no payments required for 30 years. Subordinate financing must be recorded after all SDHC loans and grants.

Debt To Income Ratios: Total housing debt ratio (front end) principal, interest, taxes, insurance and HOA dues cannot be *less* than *30%* of applicant(s) gross monthly income. There are no maximum front end ratio requirements.

The maximum total debt-to-income (back end) ratio may *not exceed 45%*. Total debt-to-income ratios over *45%* that do not exceed *50%* may be eligible for loan committee review on a case-by-case basis.

The debt-to-income ratio requirement does *not* apply when *only* applying for the closing cost grant.

Pre-payment: There is no prepayment penalty on the shared appreciation loan or closing cost assistance grant.

Loan Origination Fee / Discount Points: The *maximum* fee charged to the applicant cannot exceed 1.5% loan origination and discount points *combined*. The loan origination and discount points can only be charged on the first trust deed loan. Loan origination cannot be charged on the SDHC shared appreciation loan or closing cost assistance grant.

Default: The terms of the shared appreciation loan is designed to encourage long-term residency in the program-assisted home. No interest is charged on the loan except in the case of default when the rate is 10%.

The loan shall also become due and payable when the acceleration clause has been triggered. The acceleration clause will be in effect when any of the following takes place:

- The property is no longer the principal place of residence of the applicant
- Upon discovery of willful misrepresentation or fraud in connection with the program
- Renting out the property
- Uncured default on the first trust deed loan

Assumption: The loan is not assumable except in very limited circumstances which must be approved by SDHC.

Eligible Properties: The first time homebuyer programs can be used to purchase new or resale single-family homes including single family detached homes, condominiums, or townhomes in the *City of San Diego*.

Two-on-one units, duplexes, triplexes, fourplexes etc., do not qualify as eligible properties.

PROPERTY INSPECTION

Prior to the close of escrow, the subject property must meet Housing Quality Standards (HQS). The HQS inspection must be completed by an approved company from SDHC's list of qualified inspectors. Any items failing inspection must be repaired or replaced and re-inspected *prior* to the close of escrow.

Lead-based Paint: If the property was built prior to 1978, an assessment for lead-based paint is required and will be completed through the HQS inspection. If the HQS inspector finds deteriorated paint in excess of the HUD approved level, a lead-based paint test will be required. Any area tested which contains lead in excess of the HUD approved threshold are required to be remediated by a certified lead contractor. Clearance will be required *prior* to the close of escrow.

The HQS inspection and assessment for lead-based paint are not a complete home inspection. It is strongly recommended that the buyers obtain a full property inspection from a licensed residential property inspector.

LOAN UNDERWRITING PROCESS

SDHC shall underwrite the shared appreciation loan at their discretion under the first time homebuyer program requirements. Lenders will process the first trust deed using standard procedures, with adjustments to those procedures to conform to the SDHC program guidelines.

Eligible applicants will apply for SDHC first time homebuyer assistance programs in conjunction with normal mortgage loan application procedures. The SDHC program loan application must be completed and submitted by a certified participating lender.

Once the first trust deed loan has been fully underwritten and approved, the certified participating lender transmits a complete loan underwriting package to SDHC for eligibility determination and loan underwriting approval.

Loan Packages: The loan package must include *all* applicable documentation as required on the SDHC loan submission checklist. All documents included in the package shall be marked, and any document which is not applicable to the applicant(s) shall be marked as “N/A”.

The SDHC loan submission checklist shall also serve as a guide for the package stacking order.

All documents are to be completed as high quality copies of the original documents. The loan package must be submitted in hard-copy form; facsimile and emailed packages are not accepted. Original wet signatures are required on the SDHC application, disclosures, and tax returns.

Mail or deliver the *complete loan package* to:

San Diego Housing Commission

Attn: Loan Management

1122 Broadway, Suite 300

San Diego, CA 92101

Incomplete Packages: Incomplete packages and packages which are not in stacking order will be rejected. The lender will be asked to pick up the package.

SDHC Package Turn-Around: All packages shall be date-stamped and reviewed in order of receipt. Packages are reviewed for completeness and assigned to an underwriter 24 to 48 hours after delivery to SDHC.

Turn around time for underwriting and sending loan conditions, approval or a denial letter to the lender is generally 2 to 7 business days from the day the package is assigned to an underwriter.

Packages marked “RUSH” or “SUPER RUSH” etc. will *not* be processed ahead of other pending packages, and will be reviewed in the order they are received.

Program Funds / Termination: SDHC will maintain a cumulative total of loans reserved and in process. When program funds are close to being depleted, the SDHC website will be updated, and notification will be sent to all participating lenders via email.

SDHC at its sole discretion may terminate or suspend the program at any time. Notification of such will be posted on the SDHC website and participating lenders will receive an email.

LOAN CLOSING

SDHC issues final underwriting approval upon satisfaction of all prior to approval and prior to document conditions. Loan documents will be drawn and sent to escrow within 24 to 48 hours of issuing final approval.

SDHC loan documents have wet signatures and must be sent to escrow via messenger, overnight delivery, or they can be picked up by the loan officer. Loan documents *cannot* be sent via email.

To request funding; the escrow officer shall send all items requested on the title and escrow instructions issued with the loan documents, along with the following SDHC documents:

- Certified copy of the fully executed Shared Appreciation Deed of Trust
- Original fully executed Shared Appreciation Promissory Note
- Certified copy of the fully executed Declaration of Covenants, Conditions and Restrictions
- Original fully executed Shared Appreciation Truth in Lending
- Certified copy of the fully executed Closing Cost Grant Memorandum of Lien
- Original Mortgage Credit Certificate Closing Affidavit (if applicable)

Property / Hazard Insurance: Hazard Insurance naming SDHC a Second Mortgagee is required on all shared appreciation loans. The following is the mortgagee clause:

San Diego Housing Commission
Attn: Loan management
1122 Broadway Suite 300
San Diego, CA 92101
Loan No. (*input applicable loan number*)

*Flood insurance is required for any home determined to be in a special flood hazard area.

Title Insurance: A lender’s ALTA title policy is required on all shared appreciation loans. The ALTA policy insurance amount shall be for the total amount of the shared appreciation loan. The ALTA policy shall be issued to the San Diego Housing Commission and shall show all SDHC loan documents, including the Deed of Trust, Memorandum of Lien, Declaration of Covenants, Conditions and Restrictions.

Upon receipt of the loan closing package from escrow, SDHC reviews the package for accuracy and completes a final file review to ensure all necessary documents have been submitted and satisfied.

The lender and escrow officer will be notified of any outstanding prior to funding conditions via email within 24 hours of receipt of the closing package. All conditions must be received by 10:00 am for same day funding. Any conditions received after 10:00 am will delay the close of escrow until the following business day.

SDHC loan documents are only good during the month that they are drawn. There will be no funding into the next month.

Funding: The loan and grant funds will be sent in *one* wire to the account on the wire instructions contained in the preliminary title report, or as further instructed by Escrow. The wire will be sent in the total amount of the shared appreciation loan and closing cost assistance grant. There are no fees deducted by SDHC from the wire.

CANCELLATIONS AND APPROVAL EXPIRATIONS

Changes Prior to Close of Escrow: Lenders must promptly notify in writing of any loan cancellations and/or request for approval extensions. When a decision is made not to continue with the shared appreciation loan and/or closing cost grant, written notice must be received by SDHC within 24 hours of the transaction cancellation. The notice must include the reason for the cancellation and the signatures of both the lender and the applicant.

If 60 days has passed since the approval was issued, the lender must submit the following updated documents:

- Income documentation; i.e. paystubs, P&L, VOE etc.
- Bank statements
- Credit report
- 1st Trust Deed underwriting approval

Failure to comply with SDHC's timeframes may result in the lender's removal from the list of certified participating lenders.

SDHC issues loan approval based on the certifications and documentation provided in the applicant's loan package. The lender must immediately notify in writing of any change that could affect the applicant(s) eligibility for the loan. If a change in the circumstances of the applicant is such that he/she no longer meets program requirements, the approval is automatically revoked.

Income Changes: The income verified for the approval is valid as long as the loan closes within 60 days after the financial information was originally submitted and there have been no changes which effect previously reported income. If the loan does not close within 60 days, all applicable income, asset and credit documentation must be updated and re-verified.

Marital Status: If the applicant gets married after issuance of the approval and prior to the close of escrow, the lender must notify SDHC. The spouse will be considered a co-applicant and must satisfy the first time homebuyer requirements and provide income, asset and credit information. Any increase in the household income, assets or credit because of the new spouse may affect the approval.

Acquisition Cost: If a change in acquisition cost or first trust deed loan amount occurs after the approval, the lender will be required to immediately notify SDHC by phone, followed by a new version of:

- SDHC application with revised loan and grant amount

- First trust deed approval
- 1003 / 1008
- Purchase contract amendment

Upon receipt of revised / updated documentation, and so long as there is no adverse effect in the CLTV or debt to income ratios, a revised approval *may* be issued.

LENDER ELIGIBILITY

Lender is defined as a financial institution, whether broker, retail, or wholesale, licensed to make first mortgage loans in the State of California. All lenders who wish to participate in the SDHC first time homebuyer programs must be enrolled as a certified participating lender, and have attended the first time homebuyer program lender training. To enroll and maintain active status a lender must:

- Fill out and sign an original *Lender Participation Agreement*
- Pay the annual lender fee of \$400
- Designate a contact person from each branch
- Agree to adhere to *Quality Commitment Policy* outlined in the lender participation agreement
- Provide a copy of this First Time Homebuyer Program Manual to all loan processors and underwriters who will be working with the program
- Cooperate with SDHC staff in providing the best possible service to the applicants
- Provide a copy of all SDHC disclosures to all applicants in a timely manner

The lender will submit the participation agreement, application fee, and a copy of their State of California, Department of Corporations License Certificate, or Department of Real Estate License Certificate to SDHC in order to be considered for eligibility. Enrollment must be renewed annually.

Mail the *lender participation package* to:

San Diego Housing Commission
Attn: Loan Management
1122 Broadway, Suite 300
San Diego, CA 92101

The lender will be required to sign the SDHC application as certification that no material misstatements appear in the application and related documents. If the lender becomes aware of such, whether negligently or willfully made, he/she must notify the SDHC immediately. The lender should also be aware and inform the applicant of penalties provided by California law if a person makes a false statement or misrepresentation for the sole purpose of participating in this program. SDHC will take all lawful actions to correct or mitigate the problem.