



**CITY OF SAN DIEGO**  
**3% INTEREST DEFERRED LOAN PROGRAM GUIDELINES**  
**BUYERS EARNING 80% OR LESS OF AREA MEDIAN INCOME (AMI)**

**Program Overview:**

The 3% Interest Deferred Loan Program is a homeownership program designed to make funds available to low-income households to help with the purchase of a home within the City of San Diego. This program provides financing in the form of a second trust deed loan.

**Eligible Borrowers:**

1. Households whose income is 80 percent or less than the San Diego County Area Median Income (AMI), as adjusted for household size. Gross income will be calculated based on the program guidelines stated below. To establish program eligibility, income of all household members 18 years and older must be taken into account. The borrower is required to provide all pertinent information requested by the first trust deed holder on behalf the San Diego Housing Commission. For the purpose of determining household size, any person claimed as a household member must have lived with the borrower for a minimum of one year.
  
2. Qualified applicants and all household members over the age of 18 must be a first time homebuyer. First time homebuyer means a person who has not owned a home during the three year period prior to purchase of a home using assistance from SDHC. This timeframe includes those 36 months previous to the date the mortgage is executed. The following individual or individuals who may not be excluded from consideration as a first time homebuyer under this 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 preceding two 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 compensation 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 the spouse. A single parent is an individual who is unmarried and has one or more minor children for whom the individual has custody or joint custody (borrower must have child a minimum 51% of the time if joint custody).

2015 Maximum Income Limits			
Household Size	80% Income Limit	Household Size	80% Income Limit
1	\$45,400	5	\$70,000
2	\$51,850	6	\$75,200
3	\$58,350	7	\$80,400
4	\$64,800	8	\$85,550

**Eligible Properties:**

Single family homes, townhomes and condominiums located within the City of San Diego. The maximum purchase price limits are:

- Attached and Detached: **\$390,000**

The price paid for the property must be substantiated by a qualified appraiser.

Eligible properties must have the following occupancy characteristics:

- Currently occupied or recently vacated by the owner-seller of the property; or if a rental property, sold only to the existing tenant; or
- If rental property, vacant prior to submission of the purchase offer by borrower.

*Due to the relocation regulations as stated in the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, properties occupied by a tenant at the time the purchase offer is made are not eligible for first time home buyer assistance. No exceptions can be made to the requirements regarding properties which are or were tenant occupied.*

**Property Condition:**

Termite Clearance:

A termite report and clearance is required on all properties. Section I and II clearance required. This requirement *cannot* be waived.

**PROPERTY STANDARDS INSPECTION:**

A Property Standards Inspection is *required*. If the property was built prior to 1978, an assessment for lead-based paint is also required. The property standards inspection must be completed by an approved company from the Housing Commission's list of qualified inspectors. All items failing inspection must be repaired or replaced and a certification issued by the inspector stating the property meets Housing Commission property standards requirements and is clear from lead-based paint prior to the close of escrow.

The cost of repairs related to the property standards inception *can* be covered by the homeownership grant if the costs are not covered by the seller and if there are sufficient funds available after paying customary recurring and non-recurring closing costs. All repair costs requested to be paid by the homeownership grant must be pre-approved by the Housing Commission.

**LEAD-BASED PAINT:**

If the visual assessment for lead-based paint fails in the property standards inspection, lead-based paint clearance must be obtained prior to the close of escrow. Clearance can be obtained by one of the following options:

- 1) Obtain an XRF Inspection with Risk Assessment from a company licensed to perform lead-based paint testing
  - a. If the test results are negative, no further action is required;
  - b. If test is positive, surfaces must be stabilized by a certified / trained company using safe work practices, and clearance is to be provided; or
- 2) Presume surfaces are positive for lead-based paint
  - a. Have surfaces stabilized by a certified / trained company using safe work practices;
  - b. Obtain clearance from a company licensed to perform lead-based paint clearance

The cost of Lead Abatement repairs *can* be covered by the homeownership grant if the costs are not covered by the seller and if there are sufficient funds available after paying customary recurring and non-recurring closing costs. All repair costs requested to be paid by the homeownership grant must be pre-approved by the Housing Commission.

*Please be advised, the Property Standards Inspection and assessment for lead-based paint are not a complete home inspection. It is strongly recommended borrowers obtain a full property inspection from a licensed residential property inspector.*

**Down Payment:**

All borrowers must have a minimum down payment of three percent. The borrower's down payment must be from their personal funds or a gift from an immediate family member. An immediate family member includes the following people; father, mother, brother, sister, grandparent, uncle, aunt or cousin.

Any seller contributions or subsidies the borrower receives (including the Housing Commission Homeownership Grant) are in addition to the required down payment of three percent.

**Loan Amount:**

The 3% interest deferred loan amount is 17% of the purchase price or appraised value whichever is less. The minimum loan amount is \$1,000.

The borrower may apply for a loan less than 17% of the sales price if needed to keep debt-to-income ratio or assets within guidelines.

**Loan Terms:**

1. 3% Interest Deferred Payment loans have a term of 30 years. No monthly payments of principal or interest are required. When the buyer sells the property or wants to pay the loan in full, in addition to payment of the principal balance, the buyer must pay all the accrued interest.
2. The Deed of Trust contains an acceleration clause, which will call the entire loan due and payable upon certain events, including the following:
  - Transfer or sale of the property
  - If the borrower no longer occupies the property
  - Discovery of willful misrepresentation or fraud in connection with any aspect of the Deferred Payment 3% Interest Loan Program
  - Renting of the property
  - Uncured default by borrower on the first trust deed note, or deed of trust, or any other senior or junior loan or encumbrance on the property
3. The maximum combined loan to value (CLTV) of the first trust deed loan, 3% interest deferred payment loan, and any other subordinate financing shall not exceed 97% CLTV, except in the case of FHA and VA financing when Up Front Mortgage Insurance Premiums (UFMIP) and VA funding fees are financed by the 1<sup>st</sup> trust deed.

*Borrowers are required to have a minimum down payment of 3% from their personal funds.*

4. Subordinate financing to the Housing Commission's deferred loans is allowed provided the loan is deferred with no payments required for 30 years.
5. Co-borrowers or co-owners, other than owner occupants, are not permitted. This rule is included to prohibit investors from utilizing qualified persons to purchase a property for their own investment

purposes and financial gain. The non-borrowing spouses are considered co-borrowers even if they will not be on the loan for the first mortgage.

4. Loan Assumption – Generally, deferred payment 3% interest loans are not assumable. The loan must be paid in full upon the sale or transfer of the property. However, under certain terms and conditions, the deferred payment 3% interest loan may be assumed *with the prior written consent of the Housing Commission*.
5. Refinance/Subordination Agreements – Deferred payment 3% interest loan can be subordinated to the refinancing of the existing first trust deed loan in order to lower the interest rate or reduce the loan term.

#### **Asset Reserve / Limitation:**

- Asset *reserve minimum* requirement of \$1,000 at the close of escrow
- Asset *reserve limitation* of \$10,000 for one person and \$500 for each additional household member.
- 2% will be calculated on liquid assets over \$5,000 and will be counted as part of the household income for eligibility purposes.

Liquid assets of all family members, including children, must be considered. If a portion of the assets will be used towards the purchase and have or will be placed in escrow, they will not be considered. If a household member has access to their retirement account, it must be considered. In the case where retirement account cannot be accessed, the employer must verify this in writing.

#### **Credit Guidelines:**

- Minimum credit score: 640
- Borrowers with a foreclosure or short sale within the last five years must provide a letter of explanation and substantial back-up documentation as to the cause;
- A letter of explanation is required for all derogatory reporting's dated within two years of the close of escrow; all collections and judgments must be paid in full through escrow or prior to the close of escrow, back-up documentation showing the account has been paid is required if paid outside of escrow; and
- A credit report for a non-borrowing spouse is required. All debt of the non-borrowing spouse will be used in the debt-to-income ratio calculations.
- All collections and judgments must be paid in full.

#### **Income Qualifying For Eligibility Only:**

The combined income of all members of the household 18 and over who are currently living together as a family and will be living in the property must be included in the determination of income. The household's income must be projected as an annual income. It should be assumed that today's circumstances would continue for the next 12 months, unless there is verifiable evidence to the contrary. Income on assets is considered when determining if a household is 80% or less of AMI. All households must be income-qualified no more than 90-days prior to the closing date. For the purpose of determining eligibility income, all income is included even if there is less than a two year history.

#### **Income Calculations for Underwriting:**

Program guidelines require the combined income of all persons on title, including a non-borrowing spouse (if applicable), must be included in the calculation of income. The household's actual / averaged income will be calculated for underwriting purposes. It should be assumed that today's circumstances would continue for the next 12 months, unless there is verifiable evidence to the contrary.

Applicants, co-applicants and non-borrowing spouse's must have a minimum of a two year continuous work history. An exception *may* be made for applicants and co-applicants who recently earned a bachelors degree or higher in which case a minimum of one year work history is required. Volunteer and intern work does not count toward the one year work history requirement.

**Debt-to-Income Ratio:**

The borrowers monthly housing debt, including principal, interest, property taxes, property insurance, and if applicable mortgage insurance and homeowner's association dues, cannot be less than 30 percent of the borrower's gross monthly income.

The borrowers monthly housing debt, *plus* all other household monthly debt (including credit cards, automobile payments, etc.), can not exceed 45 percent of the borrowers gross monthly income. If the total debt ratio exceeds 45 percent, the application must be presented to the Loan Committee for consideration.

The income of a non-borrowing spouse *is* included when calculating the debt-to-income ratios.

**First Trust Deed Loan:**

The loan must be a 30-year, fixed interest rate loan. Conventional, FHA and VA financing are acceptable.

6. First trust deed 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.

**Homebuyer Education Class:**

All applicants, co-applicants and non-borrowing spouses, whether on title or not, are required to attend an 8-hour homebuyer education class given by a HUD approved agency (see website SDHC for Homebuyer Education Provider list).

*These guidelines are provided as a basis for the determination of program eligibility and underwriting of deferred loans. The Housing Commission at it's sole discretion may make exceptions to any guideline which is not driven by the Housing Commission Policy 600.101.*



*The San Diego Housing Commission (SDHC) is committed to affirmatively furthering fair housing by promoting fair and equal housing opportunities for individuals living in the City of San Diego. This commitment extends to all housing programs managed or owned by SDHC and to all grant-funded programs provided by SDHC. It is the policy of SDHC to provide services without regard to race, color, religion, national origin, ancestry, age, gender, familiar status or physical/mental disability. For more on our commitment to affirmatively furthering fair housing visit our website at [www.sdhc.org](http://www.sdhc.org)*

<b>Applicant Eligibility</b>	<b>Standards</b>
Co-Signers	Co-signers who will not occupy the property are prohibited.
Documentation	<ul style="list-style-type: none"> <li>• If married: spouse must sign SDHC forms, disclosures and promissory note; regardless of vesting.</li> <li>• If unmarried: need copy of final divorce decree and judgment from the court.</li> <li>• Death certificate for deceased spouse.</li> <li>• Non-US Citizen: copy of permanent alien registration card (green card)</li> <li>• Copy of driver's license or other photo ID</li> </ul>
<b>Income</b>	<b>Standards</b>
Alimony and Child Support	Copy of divorce decree and/or child support agreement, with six months proof of payment.
Disability Income	Copy of award letter from payer.
Social Security Income	Copy of award letter from payer.
Retirement or Pension Income	Copy of award letter or W-2 from payer.
Workers Compensation Benefits	Copy of award letter from payer.
Unemployment Compensation	Copy of award letter from payer.
Financial Aide (student loans, etc.)	Copy of award letter from payer.
Interest or Dividend Income	Two years 1040s, copies of current statements verifying buyer's assets.
Tax Returns	Three years tax returns, signed.
Salaried Borrowers	Most recent pay stubs covering minimum of two month's income. If there are multiple employers, all pay stubs showing year-to-date earnings.
Part-Time Employment	Most recent pay stubs covering a minimum of two month
Bonus and Overtime Income	Must be documented on pay stub. Will be used if there is a two-year history and likelihood of continuation.
Self-Employed	Two years tax returns with schedule C and a year-to-date signed profit and loss statement.
Commission Only	Two years tax returns with schedule C and a year-to-date signed and dated profit and loss statement <u>or</u> most current pay stubs covering a minimum of one month
<b>Assets</b>	<b>Standards</b>
Checking and Savings Accounts	Three months most recent bank statements.
Stocks and Bonds	Must be verified by brokerage firm or similar company and statement of account.
Saving Bonds	Copy of bond.
401K or Retirement Accounts	Copy of account statement and letter from employer verifying that borrower does <u>not</u> have access to the funds, if applicable.
<b>Liabilities</b>	<b>Standards</b>
Alimony/Child Support	Include as debt if over six months remaining. Need copy of divorce decree.
Installment Loans	Include as debt if over six months remaining.
Revolving Accounts	Use payment stated on credit report or application, whichever is higher. If payment is not stated, use the higher of \$10 or 5% of the outstanding balance owing.
Student Loan	If loan is deferred for one year or more, do not include as a monthly obligation. If less than a year deferment or borrower making payments, include as a debt.
<b>Credit History</b>	<b>Standards</b>
Credit Reports	Must be a "three repository merged" credit report. Any items not belonging to borrower must be removed from the report. Credit report can not be dated more than 60 days from underwriting.

Collections	All unpaid collections must be paid. Need letter of explanation from borrower.
Derogatory Credit	Letter of explanation is required for all derogatory credit. No accounts can be past due at the time of loan application.
Bankruptcy	General rule is that a minimum of two years has elapsed since the bankruptcy was discharged with no derogatory rating since the discharge. Buyer must have rebuilt their credit. A copy of the bankruptcy filing, the discharge and letter of explanation required.
Short Sales / Foreclosures	A minimum of three must have elapsed since the short sale or foreclosure. Buyers must provide a letter of explanation and back-up regarding the cause of the short sale or foreclosure.
Judgments, Garnishments and Involuntary Liens	No outstanding judgments, garnishments or involuntary liens are allowed.
Inquires	Any inquires within the last 90-days must be explained.
No or Limited Credit History	Alternative credit history is required. Utility payment records (at least three months most recent statements), rental payments (past 12 months) or other personal loans (past 12 months). Need three forms of credit history, at least one must be a rental history.