



SAN DIEGO  
HOUSING  
COMMISSION

# First-Time Homebuyer

3% Interest Deferred Payment Loan and  
Closing Cost Assistance Program Manual

*Last updated July 7, 2017*

San Diego Housing Commission  
1122 Broadway, Suite 300  
San Diego, CA 92101  
[www.sdhc.org](http://www.sdhc.org)





**PURPOSE OF THE PROGRAM MANUAL ..... 4**

**GENERAL DEFINITIONS..... 4**

**PROGRAM ELIGIBILITY ..... 7**

FIRST TIME HOMEBUYER: .....7

TAX RETURNS: .....7

INCOME TAX AFFIDAVIT: .....8

DIVORCED: .....8

SEPARATED: .....8

CITIZENSHIP: .....8

CO-BORROWER/CO-MORTGAGOR/HOUSEHOLD: .....8

NON-BORROWING SPOUSES: .....9

**INCOME..... 9**

**COMPUTING INCOME ..... 9**

FULL TIME WAGE EARNER: .....10

OVERTIME, DOUBLE-TIME, COMMISSIONS, AND BONUSES: .....10

SELF-EMPLOYED: .....10

SEASONAL EMPLOYEES: .....10

PART TIME AND/OR SECOND JOB: .....10

TWO YEAR WORK HISTORY: .....10

MILITARY PAY: .....10

PART OR FULL TIME STUDENTS: .....11

INCOME FROM ASSETS: .....11

OTHER INCOME: .....11

DOCUMENTING INCOME: .....11

NO INCOME: .....11

DEPENDANTS: .....11

**HOUSEHOLD ELIGIBILITY REQUIREMENTS ..... 11**

CREDIT GUIDELINES: .....11

DOWN PAYMENT: .....12

GIFTS: .....12

RESERVE REQUIREMENT: .....12

ASSET LIMITATION: .....12

HOMEBUYER EDUCATION: .....12

**3% INTEREST DEFERRED PAYMENT LOAN ..... 13**

**HOMEOWNERSHIP GRANT..... 13**

**LOAN AND GRANT PARAMETERS ..... 13**

MAXIMUM SALES PRICE: .....13

FIRST TRUST DEED LOAN: .....13

IMPOUNDS: .....13

PROHIBITED FIRST TRUST DEED LOANS: .....13

COMBINED LOAN-TO-VALUE: .....14

SUBORDINATE FINANCING: .....14

DEBT-TO-INCOME RATIOS: .....14

PRE-PAYMENT: .....14

LOAN ORIGINATION & DISCOUNT POINTS: .....14

# Table of Contents



DEFAULT:.....	14
ASSUMPTION: .....	14
ELIGIBLE PROPERTIES:.....	15
PROPERTY OCCUPANCY REQUIREMENTS: .....	15
<b>PROPERTY INSPECTION .....</b>	<b>15</b>
TERMITE: .....	15
PROPERTY STANDARDS INSPECTION: .....	15
LEAD-BASED PAINT: .....	15
<b>LOAN UNDERWRITING PROCESS .....</b>	<b>17</b>
PRE-APPROVAL:.....	<b>Error! Bookmark not defined.</b>
ACTIVE ESCROWS: .....	17
INCOMPLETE PACKAGES: .....	17
TURN-AROUND TIME: .....	17
PROGRAM FUNDS / TERMINATION: .....	17
<b>LOAN CLOSING .....</b>	<b>17</b>
LOAN DOCUMENTS: .....	17
PROPERTY HAZARD INSURANCE: .....	18
TITLE INSURANCE: .....	18
FUNDING:.....	18
WIRE TRANSFER: .....	18
<b>CHANGES PRIOR TO CLOSE OF ESCROW: .....</b>	<b>18</b>
CANCELLATIONS:.....	18
APPROVAL EXPIRATIONS:.....	19
INCOME CHANGES: .....	19
MARITAL STATUS: .....	19
ACQUISITION COST: .....	19
<b>Lender Requirements.....</b>	<b>20</b>



## **PURPOSE OF THE PROGRAM MANUAL**

This manual contains a description of the San Diego Housing Commission (SDHC) City of San Diego First Time Homebuyer Program requirements, processing procedures and program administration. Additionally, this manual contains the regulations pertaining to the program funding sources as well as the Housing Commission Lending Policy 600.101. SDHC may revise these guidelines from time to time, terminate and/or place the program on hold at its sole discretion. SDHC at its sole discretion, may make exceptions to any guideline which is not driven by funding source regulations or the Housing Commission Lending Policy 600.101.

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 arm's 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 located within the City of San Diego. Eligible properties must be currently occupied or recently vacated by the owner-seller; if tenant occupied, sold only to the current tenant; or if a rental property, vacant at the time the purchase offer is made by the borrower. Properties which are tenant occupied are not eligible for assistance. No exceptions can be made to this requirement.

**FIRST TIME HOMEBUYER:** Means a person who has not owned a home during the three year period prior to the purchase of a home using assistance from SDHC. This timeframe includes those 36 months previous to the date the mortgage is executed.

**HOME INVESTMENT PARTNERSHIP PROGRAM (HOME):** Elements of the 3% Interest Deferred Payment Loan 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 have resided together for at least 6 months (except in the case of a newborn child) and will continue to reside in the residence being purchased and function as a cohesive unit.

**IMMEDIATE FAMILY MEMBER:** An immediate family member includes the following people: father, mother, brother, sister, grandparent, cousin, uncle or aunt.

**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 HUD's technical guide for determining income and allowances. All income derived from any source, including but not limited to wages (gross pay), overtime, pensions, veteran's compensation, bonuses, public assistance, alimony, child support, adoption support, foster care support, 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.

**MODERATE INCOME:** A household with income not greater than 100% of the area median income as established by HUD. Every 12-18 months, these figures are updated by HUD.

**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 dwelling; 2) condominium unit; or 3) townhome unit.

**PROPERTY STANDARDS:** Existing housing that is acquired for homeownership must be decent, safe, sanitary, and in good repair. Property standards are in accordance with 24 CFR Part 92.251. All properties are required to be inspected by an SDHC approved inspector.

**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.

**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”).

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

## Section I: Eligibility Requirements



### 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. 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.

#### FIRST TIME HOMEBUYER:

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.

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 at least 51% custody.

#### TAX RETURNS:

All household members over the age of 18 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 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

## Section I: Eligibility Requirements



- Marital status
- Tax shown on return
- Adjusted gross income
- Taxable income
- Self-employment tax
- Number of exemptions

Lender must run the 4506 for all adult household members if tax returns cannot be provided.

### INCOME TAX AFFIDAVIT:

In the event the applicant(s) and/or any household member over the age of 18 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* and a letter from the IRS verifying whether income taxes were filed or not. This document is to be forwarded with the application package and is required for all household members over the age of 18 whether on the loan or not.

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:

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.

### SEPARATED:

Any applicant with the marital status of “separated” must provide the income, assets, tax returns, and credit report of his or her spouse which *will* be used in the program eligibility analysis.

### 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, asset, tax returns and credit documentation, but *cannot* be on the loan or on title.

### 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.”



## Section I: Eligibility Requirements



### NON-BORROWING 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.

### INCOME

Income must be at or below the **currently published area median income (AMI)**, adjusted for household size. 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.

2017/2018 Maximum Income Limits					
Household Size	80% Income Limit	100% Income Limit	Household Size	80% Income Limit	100% Income Limit
1	\$50,950	\$55,500	5	\$78,600	\$85,650
2	\$58,200	\$63,450	6	\$84,400	\$92,000
3	\$65,500	\$71,350	7	\$90,250	\$98,350
4	\$72,750	\$79,300	8	\$96,050	\$104,700

Gross income is calculated by taking the applicant’s monthly base income, at the time of application, and multiplying it by twelve. Income that is not consistent will be averaged from the past two years.

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.

### 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. Only the income from the applicant’s current employer(s) will be used.

## Section I: Eligibility Requirements



### 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:

An averaged over the previous two years and current year-to-date income for overtime, double-time, commissions, and bonuses etc. The applicant must have a two year history in order to use the income for underwriting purposes. If with the current employer for less than two years, overtime, double time, commissions, and bonuses may be used if the applicant can document a two year history of earning these sources of income with previous employer(s).

### 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. All non-monetary expenses i.e. business use of home will be added back in to annual gross income. Income will be averaged over two years even in the case of declining income.

### 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.

### TWO YEAR WORK HISTORY:

For the purpose of determining underwriting income, applicants and co-applicants must have a minimum of a two year work history. An exception may be made for applicants and co-applicants who recently earned a bachelor's degree or higher or graduated from a trade school, 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. For the purpose of determining eligibility, all income is included even if there is less than a one year history. SDHC may accept a small gap in employment (under 6 months) if the applicant had a minimum of a consistent two year work history prior to unemployment and has been back to work for at least one year.

### MILITARY PAY:

For the purpose of computing the gross monthly income, the "total entitlement" shown on the applicant's most recent monthly leave and earnings statement, including all regular pay, special pay and allowances including housing allowance is included. 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.

## Section I: Eligibility Requirements



The special pay to a family member serving in the Armed Forces who is exposed to hostile fire is *excluded* from gross income calculation.

### FULL TIME STUDENTS:

Adult members (ages 18 - 23) enrolled in a vocational, community college, or university must provide evidence of current full time enrollment status. For the purpose of computing the gross income of any person(s) identified as an adult full time student and a member of the household, only the first \$480 of the student's *annual* 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.

### INCOME FROM ASSETS:

0.06% will be calculated on all assets (including retirement accounts) over \$5,000 and will be counted as part of the household income for eligibility purposes.

### 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.

### DOCUMENTING INCOME:

In cases where the applicant is employed, recent pay stubs are required with the year-to-date earnings. Documentation regarding income must be current within the most recent 30-day period preceding the loan closing. A full two months consecutive pay stubs are required. The last pay stub from the previous two years is required. 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. Proof of residence is required.

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 residence as an established household member.

Acceptable sources of documentation include bank statements, driver's 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.

### CREDIT GUIDELINES:

## Section I: Eligibility Requirements



- 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 of the foreclosure;
- 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 and 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.

### DOWN PAYMENT:

Households will be required to provide a down payment or cash investment. A minimum contribution of three percent (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.

### GIFTS:

Cash gifts may be given towards the required three percent (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.

### RESERVE REQUIREMENT:

The minimum household reserve requirement is \$1,000. The reserves must be from liquid assets.

### ASSET LIMITATION:

The *maximum* liquid asset reserve after applicant's three percent (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

### HOME BUYER EDUCATION:

All borrowers, co-borrowers, and any non-borrowing spouse must attend an eight hour HUD approved homebuyer education class. The applicant must attend a class OFFERED by one of the providers on the SDHC approved list which can be downloaded from the SDHC website.

## Section II: Program Guidelines



### 3% INTEREST DEFERRED PAYMENT LOAN

#### LOAN AMOUNT:

Households earning up to 100% AMI may apply for a 3% interest deferred loan of up to 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% if the sales price is needed to keep the debt-to-income ratio or assets within guidelines.

#### LOAN TERMS:

The deferred loan has a 3% simple interest rate for a 30 year term. No monthly payments are required during the 30 year term. The principal and all accrued interest 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

### HOMEOWNERSHIP GRANT

Households earning up to 100% AMI, may apply for a homeownership grant of up to 4% of the purchase price or appraised value, whichever is less. The homeownership grant is not to exceed \$15,000 for borrowers at or below 80% AMI and \$10,000 for borrowers between 81% and 100% AMI and may not be less than \$1,000. The funds can be used to pay all recurring and non-recurring closing costs that are not covered by a lender credit, seller credit or other subsidy.

The homeownership grant is non-recoverable and will be *forgiven at the close of escrow*. Borrowers will only be required to sign a Homeownership Grant Agreement. There will *not* be a Promissory Note or Deed of Trust in conjunction with the homeownership grant.

***The closing cost grant must be applied for in conjunction with the SDHC Deferred Loan***

### LOAN AND GRANT PARAMETERS

#### MAXIMUM SALES PRICE:

Maximum sales prices limits *as of April 2017*:

- Attached:       **\$375,250**
- Detached:       **\$570,000**

Sales price limits 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, or VA 1<sup>st</sup> mortgage.

#### IMPOUNDS:

Borrowers are *required* to have an impound account for property taxes and hazard insurance with the first trust deed lender.

#### PROHIBITED FIRST TRUST DEED LOANS:

Adjustable Mortgages, Interest Only, Negative Amortizations, and temporary buy-downs are not allowed.

## Section II: Program Guidelines



### COMBINED LOAN-TO-VALUE:

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.

### SUBORDINATE FINANCING:

Subordinate financing is allowed provided the loan is deferred with no payments required for 30 years. Subordinate financing must record after all SDHC assistance.

### 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.

The maximum total debt-to-income (back end) ratio is 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 mortgage credit certificate program.

### PRE-PAYMENT:

There is *no prepayment penalty* on the 3% interest deferred payment loan or closing cost assistance.

### LOAN ORIGINATION & DISCOUNT POINTS:

The loan origination and discount points *cannot exceed 2.5% combined*.

Loan origination *cannot exceed 1.5%*. The loan origination can only be charged on the first trust deed loan. Loan origination cannot be charged on the SDHC 3% interest deferred payment loan or closing cost assistance.

### DEFAULT:

The terms of the 3% interest deferred payment loan is designed to encourage long-term residency in the program-assisted home. 3% interest is charged on the loan except in the case of default, the rate would increase to 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.

## Section II: Program Guidelines



### ELIGIBLE PROPERTIES:

The first time homebuyer programs can be used to purchase new or resale homes including single family detached homes, condominiums, townhomes, or manufactured homes attached to a permanent foundation in the *City of San Diego*. Two-on-one units, duplexes, triplexes, fourplexes etc., do not qualify as eligible properties.

### PROPERTY OCCUPANCY REQUIREMENTS:

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 homebuyer assistance. No exceptions can be made to the requirements regarding properties which are or were tenant occupied.***

## PROPERTY INSPECTION

### TERMITE:

A termite inspection and clearance is required. Section I and II clearance required. Termite cannot be waived.

The cost of termite 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 Termite repair costs requested to be paid by the homeownership grant must be pre-approved by the Housing Commission.

### PROPERTY STANDARDS INSPECTION:

A Property Standards Inspection to determine the property is decent, safe, sanitary, and in good repair 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 inspection *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:

## Section II: Program Guidelines

---



- 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.***



## Section III: Loan Processing and Procedures



### LOAN UNDERWRITING PROCESS

SDHC shall underwrite the 3% interest deferred payment loan and homeownership grant at their discretion pursuant to the First Time Homebuyer Program requirements. Lenders will process the first trust deed using standard practices and procedures, with adjustments to those procedures to conform to the SDHC program guidelines.

The SDHC program loan and grant applications must be completed and submitted by a participating lender. Once the first trust deed loan has been fully underwritten and approved, the participating lender transmits a complete loan underwriting package to SDHC for eligibility determination and loan underwriting approval.

#### ACTIVE ESCROWS:

The loan officer is to utilize the FTHB Submission Checklist as guidance for the items required to be submitted.

#### Deliver to:

San Diego Housing Commission  
*Attn: Housing Finance/Melissa Holt*  
1122 Broadway, Suite 300  
San Diego, CA 92101

Application and Conditions submitted after 1:00p.m., will be placed in the queue on the next business day.

#### INCOMPLETE PACKAGES:

Incomplete submissions will not be reviewed until all required documentation has been provided. To help improve turn time, piece mailed conditions will not be accepted.

#### TURN-AROUND TIME:

Packages are reviewed for completeness and placed in the queue within 24 to 48 hours after delivery to SDHC.

Turnaround time for underwriting and sending loan conditions, approval, or a denial letter to the lender is generally 4 to 9 business days from the date the package is placed in the queue.

Application and Conditions submitted after 1:00p.m., will be placed in the queue on the next business day.

SDHC is closed every other Friday for our compressed work schedule. Business days include Monday – Thursday and every other Friday, except holidays.

#### PROGRAM FUNDS / TERMINATION:

SDHC will maintain a cumulative total of assistance 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

#### LOAN DOCUMENTS:

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 via e-mail.

## Section III: Loan Processing and Procedures



### PROPERTY HAZARD INSURANCE:

Hazard Insurance naming SDHC as a Second Mortgagee is required on all 3% interest deferred payment 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 3% interest deferred payment loans. The ALTA policy insurance amount shall be for the total amount of the 3% interest deferred payment 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 and Declaration of Covenants, Conditions and Restrictions for the 3% interest deferred loan.

### FUNDING:

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 3% Interest Deferred Payment Deed of Trust
- Original + 1 copy of the fully executed 3% Interest Deferred Payment Promissory Note
- Certified copy of the fully executed Declaration of Covenants, Conditions and Restrictions (if applicable)
- Original + 1 copy of the fully executed 3% Interest Deferred Payment Truth in Lending
- Certified copy of the fully executed Homeownership Grant Agreement
- Original Mortgage Credit Certificate Closing Affidavit (if applicable)
- All additional closing documentation requested by SDHC
- Wire Instructions
- Hazard Insurance
- Estimated Settlement Statement
- Copy of the 1<sup>st</sup> Mortgage Deed of Trust and Promissory Note

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 business 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.

### WIRE TRANSFER:

The loan and grant funds will be sent in *one* wire to the account on the wire instructions as provided by Escrow. The wire will be sent for the total amount of the 3% interest deferred payment loan and closing cost assistance. There are no fees deducted by SDHC from the wire.

### CHANGES PRIOR TO CLOSE OF ESCROW:

#### CANCELLATIONS:

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 first time homebuyer assistance, written notice must be received by SDHC within 24 hours of the transaction cancellation.

## Section III: Loan Processing and Procedures

---



### APPROVAL EXPIRATIONS:

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

- Income documentation, i.e. paystubs, profit and loss, etc.
- Bank statements
- Credit report
- First 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 affect 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 assistance amounts
- First trust deed approval
- 1003 / 1008
- Purchase contract amendment

## Section IV: Lender Participation



### Lender Requirements

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 participating lender, and have attended SDHC's 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 the *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: Housing Finance | Melissa Holt  
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.



*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, familial 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)*