

**CITY AND COUNTY OF SAN FRANCISCO**

**MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT**



One South Van Ness Avenue, 5th Floor

San Francisco, CA 94103

Tel. (415) 701-5500

Fax (415) 701-5501

[sf.gov/mohcd](http://sf.gov/mohcd)

**DOWNPAYMENT ASSISTANCE LOAN PROGRAM (DALP) MANUAL**

**Effective Date: September 29, 2025**

# Downpayment Assistance Loan Program (DALP) Manual

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# SECTION 1 INTRODUCTION TO DALP

## 1-1 Program Summary

The City and County of San Francisco (the “City”), Mayor’s Office of Housing and Community Development (“MOHCD”) administers down payment assistance loan programs to assist eligible first-time homebuyers, including, but not limited to, the General Downpayment Assistance Loan Program (General-DALP), Below Market Rate Downpayment Assistance Loan Program (BMR-DALP), First Responders Downpayment Assistance Loan Program (FRDALP), Educators Downpayment Assistance Loan Program (Educators-DALP), DK Downpayment Assistance Loan Program (DK-DALP), Teacher Next Door (TND), and City Second Loan Program (CSLP) (collectively, “DALP”).

MOHCD periodically publishes a manual containing the requirements, guidelines, and processing procedures for implementation of MOHCD’s DALP (this “Manual”). This Manual is meant to provide compliance guidance to all DALP users – including applicants, buyers/borrowers/homeowners, MOHCD-Approved Lenders, Homebuyer Education Providers, and MOHCD program staff.

MOHCD will review and update this Manual from time to time to address needs of San Francisco and respond to changes in the home mortgage industry and San Francisco housing market. Adjustments to eligibility criteria and other policies may be issued through policy memoranda. All material updates will be posted on MOHCD’s website at [sf.gov/mohcd](https://sf.gov/mohcd).

This Manual was updated on September 29, 2025 to amend Appendix 5 and Appendix 6.

## 1-2 Definitions

**applicant:** any person applying for a DALP loan (whether individually or together with co-applicants).

**Appreciation:** An amount representing the increased value of a property determined by difference of (a) lower of (i) sale price of a property from the time of the original purchase or (ii) the Fair Market Value from the time of the original purchase, and (b) greater of (i) the current Fair Market Value or (ii) sale price at the time of resale of the property, as applicable.

**Area Median Income or AMI:** The median income level as determined and published by MOHCD derived, in part, from the Department of Housing and Urban Development (HUD) on an annual basis for the San Francisco area, adjusted for household size, but not high housing cost area.

**AUS:** Automated Underwriting Systems.

**Back-End Ratio:** This is defined in Section 4-2(D). This is sometimes referred to as the DTI Ratio.

**Bedroom:** A habitable room that meets the minimum requirements as defined in Section 3-4 (*Property Size, Household Size and Bedroom Requirements*) of this Manual.

**Borrower:** The applicant and all persons 18 years and older who will reside in the Property unless qualified for the exceptions as described in Section 2-5 (*Loan and Title Requirements*) of this Manual. The term is used interchangeably with “Buyer.”

**Buyer:** The applicant and all persons 18 years and older who will reside in the Property unless qualified for the exceptions as described in Section 2-5 (*Loan and Title Requirements*) of this Manual. The term is used interchangeably with “Borrower.”

**Commitment:** A written commitment by MOHCD to the Lender signifying that the Lender Package has been approved by MOHCD, and the Borrower meets the eligibility criteria associated with the applicable DALP.

**Condominium:** As defined in Planning Code Section 401.

**DAHLIA:** The Database of Affordable Housing Listings, Information, and Applications.

**Director:** Director of the Mayor’s Office of Housing and Community Development, or the Director’s designee.

**Domestic Partner/Partnership:** A partner in any Federal or State registered Domestic Partnership.

**DTI Ratio:** This is defined in Section 4-2(D). This is sometimes referred to as the Back-End Ratio.

**Educator:** A person currently employed with the San Francisco Unified School District (SFUSD) including the SFUSD Early Education department as teachers, paraprofessionals, and certificated staff (including counselors, nurses, speech pathologists, psychologists, behavioral analysts, social workers, Special Education (SPED) Content Specialists, and librarians).

**Eligible Borrower:** A person meeting the criteria set forth in this Manual that is in the process of obtaining financing for a Primary Residence.

**Front-End Ratio:** This is defined in Section 4-2(D).

**Fair Housing Laws:** State or federal laws that govern the fair and unbiased treatment of buyers when selling a housing unit to such buyers.

**Fair Market Value or FMV:** The value of a property based upon the determination of an authorized appraisal report mutually acceptable by both the City and the Borrower.

**FICO:** Fair Isaac Corporation.

**First Responder:** An active uniformed, sworn member of the San Francisco Police Department (SFPD), San Francisco Fire Department (SFFD), and/or San Francisco Sheriff's Department (SFSD).

**First-Time Homebuyer:** A Household that has not owned or gained interest in a residential property in the past three (3) years.

**Full Application:** A complete application from an applicant on a form specified by MOHCD that includes supporting documents needed for MOHCD to determine the applicant's Household and Household Income eligibility. See Section 6-3(D) (*Submission of a Full Application*) of this Manual for details.

**Gross Income:** Income before any allowable deductions for taxes, expenses or other items approved by MOHCD.

**Head of Household:** The person defined by the IRS as the head of household and/or the primary applicant on a first mortgage loan application. There cannot be more than one Head of Household on an application.

**Homebuyer Education Provider:** A HUD approved housing counseling agency and certified by MOHCD as listed at [sf.gov/mohcd](https://sf.gov/mohcd).

**Household:** Any person or persons who reside in or intend to reside in the Property.

**Household Income:** The combined Gross Income for the Borrower(s), and any other person 18 years of age or older who is expected to live in the Property, as determined by MOHCD under Section 2-3(B) (*Calculating Household Income*) of this Manual.

**HUD:** The United States Department of Housing and Urban Development.

**In-Law Unit:** An area within the Property that is autonomous from the principal residential area and has been constructed or converted to accommodate a separate living space complete with kitchen and bath.

**Lender or MOHCD-Approved Lender:** A Nationwide Mortgage Licensing System (NMLS) lender who has satisfied the requirements under this Manual and been approved by MOHCD to provide loans to Borrowers under DALP.

**Lender Package:** A package submitted by a Lender containing all of the documentation (listed in Section 6-3(F)(2) (*DALP Lender Package Submittal Period*) of this Manual) for MOHCD to make a final determination on an applicant's eligibility for a loan under DALP.

**Liquid Assets:** An asset that can be converted into cash with little or no loss in value, as specified in Section 2-4 of this Manual.

**Live-Work Units:** Residential dwelling units that comply with a San Francisco ordinance and zoning to qualify as legal living space within a commercially or industrially zoned building, but does not require the building to be used specifically as commercial or dwelling.

**Loan to Value Ratio:** The ratio of the amount of all indebtedness that is secured by a lien against a property to the value of the property securing the liens.

**Loft:** A Condominium with an open-style floor plan, which may or may not be a Live-Work Unit. (The real estate industry term “loft” only refers to the structural style but does not mean compliance with the criteria of ordinance and zoning parameters to be considered a Live-Work Unit.)

**Lottery:** Random selection process that provides Eligible Borrowers the opportunity to receive a MOHCD DALP loan.

**Maximum Household Income:** The maximum income allowed for a Household applying for a DALP loan as determined by Household size through the income table produced annually by MOHCD and named Maximum Income by Household Size Derived from the Unadjusted Area Median Income (AMI) for HUD Metro Fair Market Rent Area (HMFA) that Contains San Francisco, which contains the AMI levels for that calendar year and is published on the MOHCD website at [sf.gov/mohcd](https://sf.gov/mohcd).

**Mayor’s Office of Housing and Community Development (MOHCD):** The office designated by the Mayor to administer DALP and perform required oversight and Monitoring of DALP requirements.

**Monitoring:** MOHCD activity that includes, but is not limited to, verify a Borrower’s compliance with DALP requirements, which includes, but is not limited to, periodic submission of all information required by MOHCD as set forth in Section 5-6(E).

**Non-Arm’s Length Transaction:** Any transaction in which there is a relationship or business affiliation (any ownership interest, or employment) between the seller (including the builder and developer) and the buyer of a property.

**Non-Title Occupant:** Any person who will reside or intends to reside at the Property, but (i) is not a dependent of any Household member, (ii) will not appear on the title for the Property, and (iii) will not be a co-borrower for the first mortgage and the DALP loan for the Property.

**Post-Purchase Education:** A course designed to provide basic education for new homeowners offered by a Homebuyer Education Provider.

**Pre-Approval:** An evaluation of a potential Borrower by MOHCD that determines whether the Borrower qualifies for a DALP loan based on his or her income and assets eligibility.

**Primary Financing:** The first mortgage made by a Lender for the purchase of a Primary Residence and authorized by MOHCD as consistent with this Manual.



**Primary Residence:** A residential dwelling where Household members on the loan and title live at least ten (10) out of twelve (12) months of each calendar year for the entire term of the loan.

**Procedures Manual:** Inclusionary Affordable Housing Program Monitoring and Procedures Manual effective July 25, 2024, as amended from time to time. The Procedures Manual can be found on MOHCD's website at <https://www.sf.gov/information--inclusionary-housing-program-manuals>.

**Profit and Loss Statement (or P&L Statement):** A financial statement that summarizes the revenues, costs and expenses incurred during a specified period.

**Property:** The real property purchased with DALP funds.

**Purchase Agreement:** A legally binding agreement between two parties (for example, the Buyer and a seller) with the terms of purchase or transfer of real property. The term is used interchangeably with "Sales Contract."

**Purchase Price:** The amount that the Buyer pays to the seller of the Property.

**Reservation:** A reservation of DALP funds for a Borrower that is Pre-Approved, so long as the Borrower satisfies the requirements set forth in Section 6 (*Procedures of Obtaining a DALP Loan*) of this Manual.

**Sales Contract:** A legally binding agreement between two parties (for example, the Buyer and a seller) with the terms of purchase or transfer of real property. The term is used interchangeably with "Purchase Agreement."

**Section 8 or the Housing Choice Voucher (HCV) Homeownership Program:** A federal housing program administered locally by the San Francisco Housing Authority that allows the participating families to use their vouchers toward purchasing a home. Instead of providing rental subsidy, the program provides financial assistance to help eligible participants with mortgage payments, including principal, interest, taxes, insurance, and other related costs.

**Single-Unit Residence:** A single-family one-unit residence, which may include a permitted Accessible Dwelling Unit (ADU) or In-Law Unit.

**Spouse:** A partner in a legal marriage.

**Temporarily Absent Household Member:** An individual who is temporarily separated from their Household and unable to occupy the Property as Primary Residence within sixty (60) days of close of escrow. See Section 2-2(A) for more information.

**Transfer:** Any voluntary or involuntary sale, assignment, or transfer of title in the Property.

**Townhouse (Townhome):** A single-family dwelling unit constructed in a group of two (2) or more attached units in which each unit extends from foundation to roof and with a yard or public way on at least two (2) sides.

**Veteran:** Any person who (i) served in the active military, naval, or air service, and was discharged or released therefrom under conditions other than dishonorable, and (ii) is recognized by the United States Department of Veterans Affairs to receive or qualify for benefits or assistance.

**YTD:** Year-to-date.

## 1-3 Calendar and Business Days

For the purpose of this Manual, all references to "days" are **calendar days** unless explicitly stated as "business days." Calendar days include all days of the week, such as weekends and holidays. "Business days" refer only to weekdays (Monday through Friday) excluding holidays.

## 1-4 Eligible Use of Funds

- DALP loans will be made from available funding sources to provide financial assistance to eligible low, moderate, middle-income First-Time Homebuyers who would otherwise not be able to purchase a Primary Residence in San Francisco.
- DALP funds are limited to providing loans to eligible First-Time Homebuyer Households whose Household Income of all members 18 years of age and older meets the income eligibility, as determined in accordance with Section 2-3 (*Income Requirements*) of this Manual.
- DALP funds will be used to purchase a Primary Residence only.
- DALP funds may be used to cover customary, non-recurring closing costs if the DALP loan meets the financing requirements under Section 4 of this Manual.

## 1-5 Ineligible Use of Funds

- Cash disbursed to the Borrower cannot exceed \$250 at close of escrow, unless it constitutes a refund to buyer's cash contribution and has no impact on their qualification for the minimum borrower contribution (see Section 4-2(E) for more details) and the maximum allowable Liquid Assets after close of escrow (see Section 2-4(B) for more details). To clarify further, if the Borrower has contributed only one percent (1%) of the Purchase Price toward the purchase, they are not eligible to receive any cash back to maintain their eligibility for a DALP loan. Conversely, if the Borrower has contributed three percent (3%) of the Purchase Price toward the purchase, they may be eligible to receive cash back up to two percent (2%), provided that the cash back amount they will be receiving does not exceed the limit on the maximum post-purchase Liquid Assets.
- DALP funds cannot be used to pay for improvement and/or repair costs.

- DALP funds cannot be used to pay the difference between the Purchase Price and the appraised Fair Market Value of the Property.
- DALP funds cannot be used to pay for short sale negotiation fees, attorney fees, real estate agent or broker's fees, or any other fees not normally incurred by a home buyer in a typical residential real estate transaction.
- DALP funds cannot be used to pay down the first mortgage principal or any other debts or liens. See Section 4-2(D)(3)(c) for more details.

## SECTION 2 BORROWER ELIGIBILITY

### 2-1 First-Time Homebuyer Requirement

In the three years prior to the date of application, no member of an applicant's Household may own any interest in any residential property regardless of:

- Whether or not that residential property produces a financial gain; or
- Where the residential property is located; or
- Whether or not the residential property was ever used as the Primary Residence.

The following exceptions may apply:

- Loan co-signers from previous real estate transactions if the applicant was not on title and there was no financial gain to the applicant.
- Acting solely as a trustee with no beneficiary interest for a trust that includes a residential property, subject to MOHCD verification of income and assets from the trust.
- Being a named beneficiary of a trust that includes a residential property, but only if the trustor is living at the time.
- Ownership of shares in a not-for-profit limited equity cooperative (rental income, if any, will be included when determining eligibility).
- An individual who was divorced or legally separated in the past 3 years and had no ownership in any residential property, other than the marital residence that was awarded to the other spouse or partner through a legal marital or domestic partnership settlement. To consider the exception, MOHCD requires a final judgment filed with the court as described in Section 2-2 (*Household Requirements*) of this Manual.
- An individual who has only owned a property not permanently affixed to a permanent foundation in accordance with applicable laws, codes, and/or regulations, which may include, but is not limited to, a mobile home or recreational vehicle.

MOHCD may verify an applicant's First-Time Homebuyer status by: (i) reviewing the three most recent years of federal tax returns for the Household, including any mortgage deduction; (ii) relying on a signed statement by an applicant stating their homeownership status; (iii) a title search; or (iv) any other means reasonable to determine First-Time Homebuyer status. In addition, all applicants must also certify their First-Time Homebuyer status on the application or in a form provided by MOHCD.

### 2-2 Household Requirements

#### A. Definition of Household

Any group of people can apply for a DALP loan, regardless of family relations, marital status, or previous living arrangement. Individuals may jointly apply to purchase a Property using a DALP loan so long as:

- All applicants will live in the Property as their Primary Residence.

- All Household members appear on the Lottery and DALP application.
- All Household members report their income and other qualifying information.

All Household members are counted toward “Household size” and the number is used to determine the size of the Property for which an applicant’s Household is eligible.

Exceptions or special circumstances to the rules above may include the following:

- Long-term live-in assistants, as verified by MOHCD, must appear on the Lottery and DALP program application and may be counted toward Household size to determine the number of bedrooms for which applicants are eligible, but their incomes are not counted for purposes of determining income eligibility, and they are not added to title on the Property.
- Foster children, as verified through legal documentation, must appear on the Lottery and DALP program application and may be counted toward Household size to determine the number of bedrooms for which applicants are eligible, and income received to care for foster children is counted toward total Household Income.
- Children not claimed as dependents on an applicant’s federal tax return may be considered part of the Household if there is a court ordered custody agreement granting the child’s time with the applicant to be no less than thirty percent (30%) of a year, or if the child will reside in the Property as their Primary Residence (see Section 2-5 (*Loan and Title Requirements*) of this Manual for more details).
- Unborn children are not counted in Household size.
- A fiancé, Spouse, or Domestic Partner of any Household member is considered a Household member; and any other person who has any combined finances with the applicant or a member of the Household is considered a Household member.
- All Household members who are under 18 years of age must be the legal dependent of an adult Household member, except in the case of emancipated minors, as claimed on the two (2) most recent federal income tax returns.
- A Non-Title Occupant will not count toward the Household size and the bedroom count of the Property, but the Non-Title Occupant’s income will be included in Household Income when determining the Household Income eligibility. For example, a Household consisting of two persons is applying for a DALP loan, but their 27-year-old son (who is not a dependent of any Household member) will reside at the Property as a Non-Title Occupant. In order to exempt the son from Household size and the Title and Loan Requirements under Section 2-5 (*Title and Loan Requirements*) of this Manual, the applicant’s Household may apply for up to a two-bedroom property under a two-person Household AMI, as long as the applicant’s Household includes the son’s income in Household Income and the resulting total Household Income does not exceed the maximum income eligibility for a two-person household (not three-person household). Non-Title Occupants are usually those who do not intend to live in the Property as their permanent Primary Residence while the DALP loan is outstanding.
- A Temporarily Absent Household Member must be listed on the application. Such Household members will be counted toward the bedroom count of the Property only under the following circumstances: (a) Documentation is provided to demonstrate when the Temporarily Absent Household Member will occupy the Property within a specified period of time, but not

exceeding two (2) years at the time of determining eligibility; or (b) A titleholder's legal dependent who is under twenty-four (24) years old, attending post-secondary school, residing on campus due to schooling, but will reside in the Property during school breaks. A Temporarily Absent Household Member may include, but are not limited to, Household members serving temporarily in the armed forces, or those who are temporarily institutionalized.

- Any Household member (including the applicants) who was divorced in the past three (3) years or legally separated, a judgment of dissolution of marriage or an order of legal separation must have been finalized with the court (signed by a judge and entered into court records), in addition to the following: (i) spouse/ex-spouse is no longer living with a Household member; (ii) spouse/ex-spouse will not reside in the Property with a Household member; and (iii) spouse/ex-spouse and the applicant don't have any combined finances (such as joint assets, filing joint returns, and sharing living expenses), to meet the Household requirements as described above. Prior to MOHCD's determination of the applicant's Household eligibility, MOHCD will require a copy of court-endorsed, final judgment of dissolution or order of separation with all applicable exhibits, forms, and schedules to verify marital status and terms including but not limited to the division of assets, division of debts, spousal support, child support, child custody, and visitation.

## **B. Household Size Requirement**

Household size must be compatible with the Property size. Refer to Section 3-4 regarding the Household size requirement.

## **C. Non-Student Household Requirement**

Except as permitted below in this section, Households consisting solely of full-time students are ineligible for a DALP loan. A "full-time student" is defined as a person who is enrolled and attends for at least 12 credit hours per semester at an educational institution with regular facilities (including enrollment in on-line classes, other than a correspondence or night school), during the DALP application and eligibility review. Certain exceptions apply and student Households should note the exceptions carefully.

Households with full-time students may be DALP-eligible if one or more of the following applies:

- Two members of the Household are married or in a Domestic Partnership and either filing or are entitled to file a joint tax return.
- The Household consists of a single parent and his or her minor children, such parent is the Head of Household, and neither the parent nor children are a dependent of a third party.
- At least one member of the Household receives assistance under Title IV of the Social Security Act such as Aid to Families with Dependent Children (AFDC), Temporary Aid for Needy Families (TANF), CalWORKs, etc. (Social Security Administration (SSA) benefits or Supplemental Security Income (SSI) do not qualify).
- At least one member of the Household is enrolled in a job training program receiving assistance under the federal Workforce Innovation and Opportunity Act, or similar federal, state, or local laws.

- The Household includes a member who recently exited the Foster Care system who is no older than twenty-four (24) years old.
- The Household includes one or more Veterans. To verify the status as a Veteran, MOHCD will require a person to show: (a) records or identification provided by the United States Department of Veterans Affairs, or (b) other evidence sufficient to establish, in MOHCD's reasonable discretion, that the person is a Veteran.
- A single-person Household employed full-time (on average 40 hours of service per week) while enrolled full-time in school.

## D. Immigration Status

MOHCD does not require proof of citizenship, legal residency, or immigration status as criteria for qualifying for a DALP loan. However, all DALP applicants must qualify for first mortgage financing from a MOHCD-Approved Lender, and a Lender might need proof of legal immigration status.

## 2-3 Income Requirements

Borrower's Household Income cannot exceed 200% of the Area Median Income. MOHCD publishes incomes by Household size at <https://sfmohcd.org/ami-levels-homeownership> and will apply the most recently published income table (named "*Maximum Income by Household Size Derived from the Unadjusted Area Median Income (AMI) for HUD Metro Fair Market Rent Area (HMFA) that Contains San Francisco*") that is available when determining the Household Income eligibility.

Calculating total Household Income is key to determining whether the applicant(s) is (are) income-eligible for a DALP loan. Total Household Income consists of all sources of income of **ALL** Household members aged 18 or older who will occupy the Property, regardless of dependency or ownership status.

It is important to note that this Manual specifies the types and amounts of income to be included in the calculation of the Household Income. Although the definitions of Household Income used for a DALP loan covered in this Manual have some similarities with rules used by the U.S. Internal Revenue Service (IRS), the tax rules are different from the requirements under this Manual.

## A. Income Sources

### 1. Income Inclusions

Income includes, but is not limited to, the following sources:

- Gross compensation for services, including all wages and salaries, overtime pay, commissions, fees, tips, bonuses, and similar items;
- The full, gross amount of periodic payments received from social security, annuities, insurance policies, IRA distributions, retirement funds, pensions, disability or death benefits, CalWORKs, TANF, unemployment and other similar types of periodic receipt including a lump sum payment for the delayed start of a periodic payment; include amounts received by adults on behalf of minors, or by minors intended for their own support;

- Payments received from the care of foster children or adults, or adoption assistance;
- Payments in lieu of earnings, such as unemployment and disability compensation, and worker's compensation;
- Welfare/public assistance income (excluding food stamps);
- Alimony/maintenance and child support payments;
- All regular pay, special pay, and allowances of a member of the Armed Forces;
- Income from salaries and other amounts derived from operation of a business or profession;
- Income from the use, lease, or sale of assets;
- Income from an interest in an estate or trust;
- Interest, dividends, capital gains, rents, and royalties;
- Lottery or gambling winnings paid in periodic payments;
- Allowances paid by a non-Household member for housing, auto, food, etc.;
- Recurring contributions or gifts regularly received from entities or from persons not residing in the dwelling; and
- Income of any Non-Title Occupant, as described in Section 2-2(A) (*Definition of Household*) of this Manual.

## 2. Income Exclusions

The following sources of income are excluded from the total Household Income:

- Income from the employment of any Household members under the age of 18 (but income of any emancipated minor in the Household is included as Household Income and any emancipated minor is included as a Borrower on the loan);
- Non-recurring lump sum payments or additions to family assets (such as inheritances, capital gains, lottery winnings paid in one payment, cash from the sale of assets, insurance settlements, and death benefit payments);
- Reimbursement received for specific expenses (such as medical, business, or tuition) with proper documentation;
- Employer-paid health insurance costs included within the Gross Income;
- Income of a live-in assistant; and
- Amounts of educational scholarships paid directly to a student or an educational institution, and the amount paid by the government to a Veteran for use in meeting the cost of tuition, fees, books, and equipment.

## 3. General Income Information and Regulations

### a) Wages and Salary

MOHCD will use the most current paystubs for applicants to determine income for the current year. The paystub must be dated no earlier than thirty (30) days prior to the application date and it must include all year-to-date ("YTD") earnings. Additional documentation, such as verification of employment on a form approved by MOHCD from the applicant's employer, may be required.



**b) *Overtime, Tips, and Bonuses and Commission***

When calculating income based on paystubs, overtime pay, tips, bonuses, and commissions will be annualized unless the applicant can provide documentation from the employer verifying that the income was a one-time occurrence. In such cases, the amount will be removed from the annualization of the income and added as a one-time addition to the total annual income that is determined.

**c) *Seasonal Workers***

Income for Household members employed as seasonal workers who provide a verification of employment from their employer(s) verifying that the work does not occur year-round, will not be annualized. Instead, MOHCD will determine annual seasonal income by adjusting it for off season time. Any unemployment compensation Household members have received or may receive during the off season will be included.

**d) *Child Support***

MOHCD will count the amounts awarded by a court to an applicant/borrower for child support (including alimony or separation maintenance) unless MOHCD verifies that: (a) the child support payments are not being made, and (b) the applicant has made reasonable efforts to collect amounts due, including filing with courts or agencies responsible for enforcing payments. Child support arrangements made outside of the court system will be included based on the actual amount being received by the applicant. Income from child support may be excluded with evidence that the child support is scheduled to be terminated within twelve (12) months of the date of application.

**e) *Government Income***

For applicants receiving income from a governmental entity of any type, the income is derived by annualizing a regular monthly statement or by referring to an award letter. Government income includes, but is not limited to, government paid retirement, annuity, or pension income.

**f) *Self-employed or Income from Business***

All self-employed applicants must submit a Self-Employed Declaration in a form provided by MOHCD in addition to the income documentation required for all applicants. The Self-Employed Declaration must be submitted along with a Profit and Loss (P&L) Statement from any period of time not covered by the most recently filed federal income tax returns. The P&L Statement must be formatted and contains the information set forth in Internal Revenue Service (IRS) Form 1040, Schedule C or C-EZ, and must be dated within sixty (60) days of the application date. Negative business losses are not counted and will not be deducted from income. MOHCD can provide a template P&L Statement as needed.

If a self-employed applicant started a business after the last tax filing year and therefore does not have tax return(s) to document business income, or if the income shown on an applicant's P&L Statement is inconsistent with the income claimed on the applicant's tax return(s), MOHCD, in its sole discretion, may require copies of all invoices and payments made to or provided by the applicant to confirm the information provided on the applicant's P&L Statement. If deemed necessary, MOHCD may request a P&L Statement audited by an independent Certified Public

Accountant (CPA) who provides an opinion on whether the P&L Statement is presented fairly, in all material respects, in accordance with generally accepted accounting principles in the United States of America. In addition, applicants are prohibited from modifying any documents for qualification purposes. Therefore, an amended P&L Statement will not be accepted for reconsideration after the applicant's disqualification unless such amended P&L Statement is fully supported by verifiable records that substantiate the income and expenses reported on the statement. If deemed necessary, MOHCD may request the amended P&L Statement audited by a CPA.

Regardless of ownership percentage in the business, a self-employed applicant receiving income other than from a sole proprietorship (such as partnership, corporation, or limited liability company) is required to provide copies of the two (2) most recent years of business federal income tax returns with all applicable schedules. Positive business cash flow that is consistent and recurring (as reflected on the applicant's business tax returns) will be added to the applicant's Household Income. Items that can be added back to the business cash flow generally include depreciation, depletion, amortization, casualty loss, and other losses that are not consistent and recurring.

All income from self-employment at any point over the 12-month period prior to application will be considered, even if an applicant has subsequently sold or closed a business, unless exempted by MOHCD at its sole discretion under Section 2-3(A)(3)(n) (*Wage Reductions*) below.

**g) *Income from Capital Gain, Dividends, and Interests***

MOHCD will apply the income calculation standards to the income from capital gains, dividends and interests and add it to the applicant's Household Income. Negative losses are not counted and will not be deducted from income. See Section 2-3(A)(3)(o) (*Discontinuance of Non-employment Income*) for additional information.

**h) *Other Income***

Any source of regular income, whether in cash or recurring deposits to a bank account over the 12-month period prior to application, will be treated as income, and may be annualized.

In the case of an applicant who is paid in cash for employment, MOHCD will consider the applicant to be self-employed. Refer to Section 2-3(A)(3)(f) (*Self-employed or Income from Business*) above for additional guidelines.

**i) *Unemployed Applicants***

Unemployed applicants who are receiving no income from any source will submit an Unemployed Declaration as provided by MOHCD in place of income statements. Applicants receiving unemployment benefits do not need to complete the Unemployed Declaration as unemployment benefits are considered income. In all cases, applicants may be required to complete a State of California Employment Development Department (EDD) Authorization for Release of Records form or the equivalent form from another state as provided by MOHCD to verify wages and/or unemployment benefits.

**j) *Income from Commercial/Investment Property or Land Owned***

The annual income or net profits from any commercial/investment property or land owned by any applicant will be counted toward the annual Household Income.

Certain programs under this Manual define the First-Time Homebuyer as no interest in a residential unit in San Francisco during the three-year period preceding the date of the application (for example, First Responders DALP, Educators-DALP, and TND). When an applicant owns investment properties outside of San Francisco as permitted under certain programs, the applicant must document the monthly gross (and net) rental income with the most recent signed federal income tax returns (IRS Form 1040) that include Schedule 1 and Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception, such as the property was acquired during or subsequent to the most recent tax filing year. When Schedule E is used to calculate qualifying rental income, MOHCD will add back any listed depreciation, interest, homeowner's association dues, taxes, or insurance expenses to the applicant's cash flow. Non-recurring property expenses will be added back. When current lease agreements or market rents reported on Appraisal Form 1007 or Appraisal Form 1025 are used, MOHCD will calculate the rental income by multiplying the gross rent(s) by seventy-five percent (75%). If the monthly qualifying rental income minus the housing payments (principal, interest, property taxes, hazard insurance, and homeowner's association dues) is positive, the rental income will be counted in the applicant's Household Income. If the monthly qualifying rental income minus the investment property expenses (principal, interest, property taxes, hazard insurance, and homeowner's association dues) is negative, the net rental loss will not be deducted from Household Income and will be added to the Household/Borrower's total monthly obligations.

**k) *Public Assistance Income***

When qualifying for a DALP loan, public assistance income will be counted toward the applicant's Household Income. MOHCD will require documentation to show the applicant Household's receipt of public assistance income with letters or exhibits from the paying government agency that state the amount, frequency, and duration of the benefit payments. Public assistance income includes, but is not limited to, Section 8 vouchers and similar local, state, or federal housing assistance programs. If MOHCD verifies that the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, MOHCD may add an amount equivalent to twenty-five percent (25%) of the nontaxable income to the applicant's Household Income for qualifying purpose as described in *Non-Taxable Income Adjustments* (Section 2-3(A)(3)(p) below).

For the subsidy payment under the Section 8 Housing Choice Voucher homeownership option, lenders may treat this subsidy as an offset to the monthly mortgage payment. If permitted by the applicant's first mortgage lender, MOHCD will treat it the same way.

**l) *Verification of Employment***

At MOHCD's discretion, an official verification of employment on a form approved by MOHCD that is signed by both the applicant and the applicant's employer may be used as documentation of an applicant's income.

**m) *Employment Offers or Contracts***

If the applicant is scheduled to begin employment, MOHCD may use the applicant's offer letter or contract as documentation for income qualification. However, the applicant must begin employment no later than thirty (30) days after the date MOHCD approves the applicant's eligibility under DALP. If the start date specified on the applicant's offer or contract occurs outside of the 30-day window, the application may be disqualified for insufficient income documentation.

**n) *Wage Reductions***

If an applicant's income from employment has declined over the 12-month period before the application, then the applicant must provide documentation that verifies that the applicant did not quit a job or choose to reduce hours in order to qualify for DALP.

The following are exempt from the voluntary quit provisions:

- Reducing hours in one job while working more hours in another job;
- Quitting a job and subsequently beginning a new job with a similar or better rate of pay; or
- Seasonal employment.

**o) *Discontinuance of Non-Employment Income***

If an applicant's income from non-employment sources (such as trust income, annuity income, capital gains, dividends, and interest, etc.) has declined or discontinued over the 12-month period before the application, then the applicant must provide sufficient documentation that verifies the discontinuance of the income and demonstrates that the income is unlikely to re-occur for the foreseeable future.

**p) *Non-taxable Income Adjustments***

MOHCD may give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, or certain types of public assistance payments.

MOHCD must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes, but is not limited to, tax returns, award letters, policy agreements, account statements, or any other documents that address the non-taxable status of the income.

If MOHCD verifies that the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, MOHCD may add an amount equivalent to twenty-five percent (25%) of the nontaxable income to the applicant's Household Income for qualifying purposes.

**q) *Student Income***

If a full-time student aged between eighteen (18) years and twenty-four (24) years is a dependent, only \$480 of the full-time student's income will be counted toward Household Income if all of the following criteria are met:

- Student cannot be Head of Household, co-head, or Spouse of Head of Household;

- The student's full-time status must be third party verified by their school/college; and
- Applicant claims the student as a dependent, and/or the student's most recent tax return shows that they are a dependent.

#### **r) Back Pay or Retroactive Pay**

Back pay or retroactive pay, used interchangeably for purposes of this Manual, means the difference between what the applicant was actually paid and the amount they should have been paid. Back pay or retroactive pay received in a tax year(s) for actual or deemed employment or benefits that should have been credited or awarded in an earlier tax year(s) may be allocated to the appropriate periods with sufficient documentation that verify the periods the income should have been paid. For example, if an applicant receives a Social Security Disability Insurance (SSDI) back pay in 2024 for the benefits earned in 2023, the back-pay amount may be removed from the applicant's Household Income for 2024 and instead added to the applicant's Household Income for 2023 for qualifying purposes.

## **B. Calculating Household Income**

The following are the two methods used to calculate Household Income. MOHCD will generally apply both methods and determine Household Income based on the greater of the two:

- Method #1: Current total annual income from all sources projected twelve (12) months forward; or
- Method #2: Total gross annual income from all sources earned in the immediate past tax year

In most cases, both methods will be used. However, if an applicant has recently retired, become disabled, or transitioned to new employment where the income is unlikely to match the income received in the past tax year, MOHCD may request documentation of these circumstances and use Method #1 (current income) to determine the applicant's total annual Household Income.

Additionally, if the documents provided show a decrease in income of more than twenty percent (20%) from the last year (for example, 2023) to the year before last year (for example, 2022), MOHCD may require additional documentation to analyze the income change and may average the income reflected on the immediate past two (2) years (in the example, 2022 and 2023) of tax returns.

For eligibility determination between January 1 and April 15 of any given year, if tax returns have not yet been filed, applicants must submit an Income Tax Declaration, a form provided by MOHCD. In this instance, the applicant's Household Income from the previous year may also be considered, in addition to the methods described above.

Additional information for each method is described below.

### **1. Method #1: Calculating Current Total Annual Income**

This section describes the procedures and requirements for determining a Household's current total annual income based on different sources of income.

**a) Income from Paystubs**

To calculate income from paystubs, MOHCD will use one of the following two methods as appropriate and use the greater of the two to determine the Household's current annual income.

**Year-to-Date Method:**

From the most current paystub, divide the year-to-date Gross Income by the current number of pay periods to get the average Gross Income per pay period. Then multiply the average pay period Gross Income by the total number of pay periods in one year.

***Example: Calculating Income with Paystubs Using Year-To-Date Method:***

YTD Gross Income as stated on the most recent paystub = \$20,000

Current number of pay periods on most recent paystub = Pay period #10 (the 10<sup>th</sup> paycheck of the year)

Average Gross Income per pay period = \$2,000 (\$20,000 divided by 10)

Total number of pay periods in one year = 24

Annualized Gross Income = \$48,000 (\$2,000 x 24)

**Straight Pay Method:**

From the most current paystub, calculate the income based upon the rate of pay and frequency of pay indicated on paystubs as shown on the table below.

<b>Frequency of Pay</b>	<b>Determining Annual Income</b>
Annually –paid one time per year	Annual Gross Income
Monthly –paid one time per month	Monthly Gross Income x 12
Semi-Monthly –paid two times per month (receives 24 pay checks per year)	Semi-Monthly Gross Income x 24
Biweekly –paid every two weeks (receives 26 pay checks per year)	Biweekly Gross Income x 26
Weekly –paid every week	Weekly Gross Income x 52
Hourly –paid based on an hourly wage (the number of hours paid per week can vary)	Hourly Gross Income x average # of hours worked per week x 52

***Example: Calculating Income with Paystubs Using Straight Pay Method:***

Hourly rate of pay as stated on the most recent paystub = \$22

Total number of hours per pay period = 87.5

Total number of pay periods in one year = 24

Annual Gross Income = \$46,200 ( $\$22 \times 87.5 \times 24$ )

In the above examples, the income calculated from year-to-date method is greater than the straight pay method and therefore will be used to determine the applicant's Household Income eligibility.

**b) *Income from a Sole Proprietorship (for Self-employed)***

MOHCD will generally use a P&L Statement for a self-employed applicant to determine the applicant's business income for the current year.

MOHCD will use the following steps to calculate an applicant's Household Income from a P&L Statement:

Step 1: Use the YTD net profit shown on the P&L Statement, adding back any of the allowable adjustments (as determined by MOHCD under this Manual) used in analyzing the tax returns for the business by MOHCD, which include but not limited to non-recurring loss and expenses, depreciation, depletion, business use of a home, amortization, and casualty loss (the result of step 1 is the YTD adjusted Gross Income).

Step 2: Divide the adjusted Gross Income by the number of months on the P&L Statement to get the average monthly income. Multiply this number by 12 to annualize.

***Example: Calculating Income with P&L Statement:***

YTD net profit as stated on P&L Statement = \$20,000

Allowable adjustments (for example, depreciation) = \$10,000

YTD adjusted Gross Income = \$30,000 ( $\$20,000 + \$10,000$ )

Number of months = 10

Average monthly income = \$3,000 ( $\$30,000$  divided by 10)

Annualized income = \$36,000 ( $\$3,000 \times 12$ )

If the P&L Statement shows a decrease in income by more than twenty percent (20%) from the immediate past tax year, MOHCD may require additional documentation (such as invoices and

payments, and/or year-to-date business account statements) to analyze the income change and may use the immediate past year's income to project the current year's income.

**c) *Income from Non-Employment***

Non-employment income, such as trust income, pension and retirement income, unemployment, dividends/interest, etc., is calculated from the most current monthly or quarterly official statement of such income. If no official statement or proof of current income documentation is available for the current year, MOHCD will use the immediate past year's income to project the current year's income. Generally, the income documentation for non-employment income should include annual statements or IRS 1099 forms for the prior year.

***Example: Calculating Non-Employment Income with a Monthly Statement***

Monthly income as stated in the most recent statement = \$500

Total number of pay periods in one year = 12

Annual income = \$6,000 (\$500 x 12)

**d) *Income from All Sources***

Once all sources of income from each Household member are verified and calculated, MOHCD will calculate the current total Household Income.

***Example: Adding all income to arrive at the current total annual income:***

As shown in the above examples, a Household of four (4) persons applying for a DALP loan receives a salary income of \$48,000 (paystub on year-to-date method), self-employed income of \$36,000 (P&L Statement), and non-employment income of \$6,000 (official statement).

Method #1 Result: The Household's current total income = \$90,000 (\$48,000 + \$36,000 + \$6,000).

**2. Method #2: Calculating Last Year's Income**

This section describes an alternate procedure for determining a Household's total annual income earned in the last tax year.

Step 1: Use the total income from the immediate past year's federal income tax return (for example, for an applicant's 2023 tax return – line 9 of IRS Form 1040).

Step 2: If applicable, add back any losses and tax-exempt income from the tax return such as tax-deferred deductions, social security benefits, interest, etc., or income not reported on the tax return such as child support payments received during the previous year.



Step 3: Add back any of the allowable adjustments for a business or self-employment, such as non-recurring income and expenses, depreciation, depletion, business use of a home, and amortization and casualty loss. If there is no self-employment income for a sole proprietorship reported on IRS Form 1040 (for example, for the 2023 tax return – line 3 of Schedule 1), skip this step.

MOHCD may, in its sole discretion, remove the following items from the calculation of the applicant's last year of income: lump sum distributions, non-recurring capital gains, 401(k) rollovers, or similar items as a result of a one-time, lump sum addition to family assets.

***Example: Calculating Last Year's Total Annual Income:***

Total Income (line 7b of IRS Form 1040): \$80,000

Capital loss (line 3 of Schedule 1 of IRS Form 1040): -\$5,000 (negative losses)

Depreciation on Schedule C: \$3,000 (allowable adjustments)

Method #2 Result: The Household's last year's total income: \$88,000 (\$80,000 + \$5,000 + \$3,000)

## **C. Income Increase Tolerance and Re-Calculation Criteria**

All applicants are responsible for reporting any change in their Household Income from the time of application review until close of escrow. Non-disclosure of any material fact or misrepresentation of information will result in disqualification. If an applicant Household's income has been determined and verified by MOHCD, the verified income calculation is valid for a maximum of twelve (12) months. However, during the 12-month period, income will be recalculated if there is an increase in Household Income of more than ten percent (10%). In addition, income will be recalculated if the DALP purchase transaction is not closed within the 12-month period.

## **2-4 Liquid Assets Requirements**

### **A. Liquid Assets**

#### **1. Liquid Assets Inclusions**

When determining a Household's total assets and eligibility for a DALP loan, an applicant's Liquid Assets will be considered and documented with statements dated no earlier than forty-five (45) days before the application date. Household Liquid Assets include, but are not limited to, the following: savings accounts, checking accounts, Certificates of Deposit, the total balance of any joint accounts, money market or mutual fund accounts, trust accounts (only the amount accessible with or without penalty), stocks or bonds, gifts, cash on hand, and all amounts liquidated or borrowed from a life insurance policy, Individual Retirement Account (IRA) or other types of retirement accounts. In addition, other

investments held by any member of an applicant's Household and custodial accounts owned by a guardian for minors will be included in an applicant's Liquid Assets.

## 2. Liquid Assets Exclusions

The following assets will be excluded from the calculation of Liquid Assets: the cash surrender value of a life insurance policy, the value of an IRA account, the value of retirement accounts (including but not limited to 401K and 403B accounts), the value of health savings account (to pay for health care expenses), and the value of a 529 college savings plan.

For any senior member of the Household aged sixty-two (62) or older, the funds in retirement accounts may be considered as non-liquid assets until they are withdrawn or transferred into the accounts listed under Liquid Assets in Section 2-4(A)(1) above.

## B. Post-Purchase Liquid Assets

Prior to applying for a DALP loan, applicants are not subject to any limit on Liquid Assets of the Household. Upon purchase of the Property (close of escrow), the Household/Borrower's combined Liquid Assets must not exceed \$80,000. If MOHCD determines that the Household/Borrower's combined Liquid Assets will exceed \$80,000 at the time of closing, the Household/Borrower will need to deposit an additional amount of cash into escrow toward purchase of the Property to reduce the Household/Borrower's combined Liquid Assets to \$80,000 at close of escrow.

## C. General Assets Information and Regulations

### 1. Gifts

If applicable, gift funds can be used for the down payment, closing costs, or financial reserves. The gift fund must be provided by a relative. A relative is a family member who is related by blood, adoption, or legal guardianship and who is not part of the Household. If necessary, the entire amount of the minimum borrower contribution (see Section 4-2(E) (*Minimum Borrower Contribution*) for more details) may come from gifts. Gift funds from non-relatives are not permitted.

### 2. Assets in Business Accounts

Assets in business accounts may be considered Liquid Assets if any one of the following criteria is met:

- Assets in business accounts are used as a source of funds for the down payment, closing costs, or financial reserves; or
- The applicant is 100% owner of the business, such as a sole proprietor; or
- Assets in business accounts are co-mingled with personal accounts.

MOHCD may require additional documentation regarding business accounts to determine an applicant's assets.

### 3. Assets in Retirement Accounts

#### a) *Using Retirement Assets as Reserves*

Funds from retirement accounts, including 401(k), 403B, IRA or Roth IRA, may be used to meet the 2-month reserve requirement. Only the vested and withdrawable portion of the account balance will be considered. Funds that are restricted by plan rules and can only be accessed upon employment termination, retirement, or death will not be eligible.

Applicants must provide a complete copy of the most current quarterly, or three consecutive monthly retirement account statement(s), for each retirement account. The documentation must clearly identify the vested balance and the terms of the plan that governs withdrawals. Retirement accounts do not need to be liquidated in order to be counted as reserves.

To account for income taxes and any early withdrawal penalties, MOHCD will count only sixty percent (60%) of the eligible withdrawable portion of retirement account funds toward the reserve requirement.

#### b) *Borrowing from Retirement Accounts*

When an applicant borrows against their retirement account, there may be a monthly repayment amount. MOHCD will include this monthly payment as part of the applicant's recurring monthly debt obligations when determining the applicant's total Debt-to-Income Ratio (DTI Ratio).

#### c) *Withdrawal from Retirement Accounts*

Withdrawal of funds from unrestricted retirement accounts toward the down payment and closing costs is generally allowed with proof of liquidation. If an applicant uses a portion of the retirement account toward the purchase of the Property, then that portion of the retirement account withdrawn or liquidated will be counted as Liquid Assets. Applicants should consider all options before using a retirement account and consult a retirement advisor and a tax advisor to fully understand the potential retirement and tax consequences, respectively, of a withdrawal in addition to any applicable early withdrawal penalty.

### 4. Inherited Retirement Accounts

If an applicant has begun receiving distribution payments from any inherited retirement account, then, except for a one-time lump sum distribution, these payments will be counted as income. If an applicant has not yet begun receiving distribution payments or a distribution schedule is not already set up, then the full value of these assets will be counted as Liquid Assets. Retirement assets inherited from spouses will be counted as an applicant's - retirement funds and may be excluded from Liquid Assets as described in Section 2-4(A)(2) (*Liquid Assets Exclusions*) above, if applicable.

### 5. Stock Options

Vested stock options will be counted as Liquid Assets; non-vested stock options will be not counted as Liquid Assets. To verify if the funds in the form of stock options are vested or non-vested, an applicant will be required to provide a copy of the most current account statement covering a three-month period or other equivalent documentation verifying vesting date, the number of options, and the option price.

## 6. Restricted Stocks and Restricted Stock Units

The treatment of restricted stocks and restricted stock units primarily depends on a) whether the shares are vested or non-vested; and b) whether the shares have been exercised or not.

- Non-vested restricted stocks/restricted stock units are not counted as income or Liquid Assets.
- Vested restricted stocks/restricted stock units will be counted as income or Liquid Assets based on the following criteria:
  - i) If the applicant has been receiving income from exercising/selling the vested shares over the last twelve (12) months with remaining shares sufficient to support continuous receipt of income, they will be treated as income.
  - ii) If the applicant has not received income from the vested shares in the past, the vested shares will be treated as Liquid Assets, unless sufficient documentation from the applicant's employer verifies that the vested shares are not accessible to the applicants prior to closing. Shares that are not accessible to applicants prior to closing may be exempted from being counted as Liquid Assets. For publicly traded stocks, the value of vested shares will be determined by using current stock prices from a financial publication or website. For stocks that are not publicly traded, the value of vested shares will be verified through documentation from the applicant's employer.

Documentation required for restricted stocks/restricted stock units (vested and non-vested) include:

- The most recent three (3) consecutive months or last quarterly brokerage or bank statements;
- Award Agreement; and
- Vesting schedule detailing past and future vesting.

If an applicant has been receiving income by selling their shares, the applicant must submit the following: (i) paystubs (or written verification of employment) documenting receipt of payouts of stock options, AND (ii) employer-provided statements paired with the brokerage or bank statements showing (a) sales of shares with dates of the payouts and (b) the number of vested shares or its cash equivalent distributed.

## 7. Virtual Currency

Virtual currency, including cryptocurrencies, will be treated as Liquid Assets, similar to both stocks and foreign currency. If the virtual currency is not in U.S. Dollars, its value will be determined using an online converter calculator to establish its equivalent as Liquid Assets. When utilized for down payment and/or closing costs, the virtual currency must be converted into U.S. Dollars and deposited into a checking, savings, money market, certificate of deposit, or other depository accounts that holds value.

## 8. Annuities

In the case of annuities, if an applicant has begun receiving annuity payments, then these payments are counted as income. If the applicant has the option of withdrawing all funds from an annuity, either with or without penalty, the annuity will be treated like any other Liquid Asset. To account for income taxes

and any early withdrawal penalties, sixty percent (60%) of the full value of the annuity will be counted as the cash value of the annuity and applied toward the Liquid Asset calculation.

## 9. Lump Sum Receipts

Lump sum payments may be counted toward Liquid Assets. Example of lump sum payments include inheritances, capital gains, lottery winnings paid in one payment, cash from the sale of assets; insurance settlements; death benefit payments, and any other amounts that are received as one-time lump sum payments.

## 10. Deposits

The source of any deposits of \$500 or more, or recurring non-payroll deposits regardless of transaction amount, into a depository account or newly opened account must be documented and provided to MOHCD. Deposits may indicate recently opened liabilities resulting from borrowed funds or additional undisclosed sources of income that may be required to be documented to determine Household Income compliance (see Section 2-3(A)(3)(h) (*Other Income*) above for additional guidance). If the source of the deposits is readily identifiable on the account statement(s), such as a direct payroll deposit, the Social Security Administration, tax refund, or a transfer of funds between verified accounts, no further documentation may be required. However, if any deposits are unlikely to impact eligibility as determined by MOHCD, MOHCD may waive further documentation from an applicant.

## 11. Withdrawals

Evidence that Liquid Assets have been transferred to another individual or into an unavailable asset account, or have been spent (except on unexpected emergencies, such as funeral expenses, travel costs related to illness, repair of a vehicle, medical needs, and housing needs) to avoid use in the purchase may result in denial of an applicant's application. The purpose and destination of any withdrawals from an asset account that could impact eligibility for a DALP loan must be properly documented and provided to MOHCD. If the source of the withdrawals is readily identifiable on the account statement(s), such as a rent payment, grocery expense, tax payment, or a transfer of funds between verified accounts, no further documentation may be required.

## 2-5 Loan and Title Requirements

All Household members aged 18 and older must appear on the title for the Property and be co-borrowers for the first mortgage loan and the DALP loan for the Property. The following exceptions apply:

- Legal dependents of titleholders as claimed on the two (2) most recent federal income tax returns.
- A Household member younger than age twenty-four (24) who is the child of a titleholder and will reside in the Property as their Primary Residence, regardless of being named as a dependent on the federal tax form.
- A Non-Title Occupant who does not count toward the Household size and bedroom count of the Property and whose income does not change the applicant's Household Income eligibility, as described in Section 2-2(A) (*Definition of Household*) of this Manual.

- Recent immigrants with insufficient credit history (defined as a person who has been in the United States for two (2) years or less as supported by entrance documentation and lender documentation of the reason for loan denial (such as the applicant’s credit report, a denial letter, and AUS findings). If approved by MOHCD in its sole discretion, a person may be exempted from the first mortgage loan (but may be required to be a titleholder, if permitted by the Lender and required by MOHCD). To qualify for this exception, the person may be required to contact at least three MOHCD-Approved Lenders to prove his or her inability to secure a first loan as mortgage product offerings and credit criteria may vary by Lender.

A Spouse or Domestic Partner of any titleholder is not considered a dependent, regardless of being named as a dependent on any federal tax form. A Spouse or Domestic Partner of any titleholder must appear on the title for the Property and be co-borrower for the first mortgage loan and the DALP loan for the Property.

## 2-6 First-Time Homebuyer Education

Each Household member aged 18 and older who is an applicant and will appear on the title of the Property must attend ten (10) hours of a combination of a program orientation, group workshops, and a one-on-one homebuyer education counseling session, available in multiple languages, through a Homebuyer Education Provider and demonstrate that they are mortgage-ready before submitting a DALP Pre-Approval application. A list of the Homebuyer Education Providers is available on MOHCD’s website at [sf.gov/mohcd](https://sf.gov/mohcd). When all required members of an applicant Household have completed the Homebuyer Education requirement, their Homebuyer Education Provider issues a Verification of Homebuyer Education form (the “Verification”) to be submitted with a DALP Pre-Approval application for a Property. The Verification must be issued within twelve (12) months from the date of the application. The Homebuyer Education Provider may renew the form for an additional year if necessary. When an applicant has entered into a contract to purchase, both the Lender and MOHCD require a valid Certificate of Completion of Homebuyer Education (the “Certificate”) from the Homebuyer Education Provider. The Certificate must be valid at the time MOHCD issues final approval for a DALP loan. Please refer to the Homebuyer Education Requirement and FAQ available on MOHCD’s website at [sf.gov/mohcd](https://sf.gov/mohcd) for additional information.

## 2-7 Mortgage Pre-Approval

MOHCD maintains a list of MOHCD-Approved Lenders, and applicants are encouraged to review each MOHCD-Approved Lender to find the right one that meets their needs. Applicants must choose only one MOHCD-Approved Lender in connection with the DALP loan. Applicants must submit a first mortgage loan pre-approval letter from a MOHCD-Approved Lender as part of their DALP Pre-Approval application submittal. The pre-approval letter must:

- Be issued by a MOHCD-Approved Lender listed at [sf.gov/mohcd](https://sf.gov/mohcd).
- Name all adults aged 18 and older in the applicant’s Household unless qualified for the exceptions as described in Section 2-5 (*Loan and Title Requirements*) of this Manual.
- Be dated within one hundred twenty (120) days of the application.

- Include a maximum sales price that meets or exceeds the actual sales price of the Property, a maximum first loan amount, the DALP loan amount, and any other subordinate loans (if applicable).

## **SECTION 3    PROPERTY ELIGIBILITY**

### **3-1    Eligible Properties**

Any property purchased with DALP funds must be a Single-Unit Residence located in the City and County of San Francisco. A Single-Unit Residence may be a single-family house, Condominium, Townhouse/Townhome, Loft, or Live-Work Unit, as long as the Single-Unit Residence (and the Property) will be used as the owner's Primary Residence.

### **3-2    Ineligible Properties**

Housing types excluded from the Program are:

- Manufactured housing (mobile or modular homes);
- Cooperatives;
- Tenancy-in-Common (TIC) properties;
- Multi-unit properties such as a duplex, triplex, or other multi-family property;
- Rental properties or any property a portion of which is to be rented;
- Investment properties;
- Properties containing unpermitted In-Law Units;
- Properties from which a trade or business is conducted without the prior written MOHCD's approval of the proposed business use; or
- Properties purchased through a non-arm's length transaction, with an identity of interest between the buyer and seller or other parties participating in the sales transaction unless authorized by MOHCD. (Approval may be granted by MOHCD on a case-by-case basis, and in its sole discretion.)
- Tenant-occupied properties (properties subject to an active lease or tenancy arrangement at the time of purchase offer as further explained in Section 3-3 below)

The list above is not comprehensive, and subject to change at any time at MOHCD's discretion. MOHCD reserves the right to identify additionally prohibited housing types.

### **3-3    Purchase of Tenant-Occupied Properties**

Properties are ineligible for DALP if they are tenant-occupied or subject to a lease agreement at the time a purchase offer is made. This includes properties with active lease agreements or any existing tenancy arrangements. To ensure buyers can immediately occupy the property as their Primary Residence and avoid potential displacement issues for tenants, the sale cannot depend on the continuation or termination of an existing lease or tenancy arrangement. A property will be eligible if the applicant is the sole tenant of such property and is seeking to purchase the property with a DALP loan, provided that: (a) the applicant can provide a current lease, (b) the applicant has not subleased the property, and (c) no co-tenants or subtenants would be displaced.



### 3-4 Property Size, Household Size and Bedroom Requirements

The Property size and Household size must be compatible. The Property size must not exceed the household size plus one (1) bedroom. For example, a single-person household may purchase a residential property with up to two-bedrooms or a property with less bedrooms if they choose; a two-person household may purchase a residential property with up to three-bedrooms or a property with less bedrooms if they choose; and so on.

Maximum Household size requirements generally need to conform to maximum occupancy requirements of the San Francisco Building Code.

ALL of the following criteria must be present to be considered a bedroom:

- Ceiling Heights: Unless legally constructed as such, a bedroom must have a ceiling height of no less than seven feet six inches (7' 6").
- Size: A bedroom must be at least seventy (70) square feet (exclusive of closets, bathrooms, or similar spaces) with no less than seven (7) feet in any horizontal direction.
- Door and Window: A bedroom must have a door and window. The window must open to an area which leads either to a street or yard space.
- Direct Connection or Bathroom: A bedroom must either: (1) have a direct connection to the living space of the property, OR (2) have a separate bathroom with a toilet and sink, and a bathtub or shower.

A bonus room or finished room will be considered as a bedroom if the room meets all the above criteria, regardless of its legalization. This includes the bedrooms as well as any rooms that meet the bedroom definition in the Accessible Dwelling Unit (ADU), In-Law Unit, or any other part of the Property. The number of bedrooms determined according to the DALP program rules may differ from the number of bedrooms reflected in the appraisal report or in public records.

### 3-5 Property Flipping

DALP cannot be used to purchase a Property that is being “flipped.” For the purpose of this Manual, “flipped” means (1) the Borrower will execute a sales contract for the Property within ninety (90) days from the seller’s date of acquisition (the date the seller acquires legal ownership of the Property), and (2) the Borrower has agreed to pay a sales price for the Property that is more than twenty percent (20%) over the seller’s acquisition price of such Property.

### 3-6 Inspection Reports Requirements

A “general home inspection” performed by a certified and independent third-party home inspector is required for all properties purchased with DALP loans. The inspection should include electrical, wiring, plumbing, roofing, insulation, and structural features. In addition, MOHCD requires a “pest control inspection” report for wood destroying pests and organisms to be conducted by a reputable license holder issued by the California Department of Consumer Affairs and the California Structural Pest

Control Board. Both reports may not be more than ninety (90) days old at the time the DALP Lender Package is submitted to MOHCD as required in Section 6-3 (*Reservation Procedures*) of this Manual.

For inspection reports older than ninety (90) days but less than six (6) months, MOHCD may accept an addendum or update from the original inspection provider. The addendum or update must verify that the property's condition has not materially changed, confirm the validity of the original findings, and note any new issues or changes since the original inspection.

Any reported deficiencies that pose an immediate health and safety hazard or code violation must be corrected as a condition to funding of a DALP loan. Items listed in Section I of the pest control inspection indicate evidence of active infestation, infection or conditions that have resulted in or from infestation or infection, which generally need to be addressed to ensure that the Property has been appropriately treated, and the damage has been repaired for health and safety reasons. It is important to note that the City and County of San Francisco will not be held liable for any misrepresentation, false claims, or information contained in the inspection reports. All Borrowers must submit a signed General Release and Waiver of Liability form to assume full responsibility for all liability and all risks of injury or loss, in connection with the Property.

The City and County of San Francisco maintains the right to deny the loan due to the condition of the Property. If the first mortgage lender is requiring repairs to the Property, a copy of the clearance report must be obtained and submitted to MOHCD before close of escrow. All health and safety construction or repairs must be complete at the close of escrow and ready to occupy. Escrow holdbacks for construction and repairs are not allowed.

Violations or corrections may be referred to the MOHCD's Lead and Rehabilitation Department for evaluation and program qualification. Please visit MOHCD's rehabilitation website at [sf.gov/mohcd](https://sf.gov/mohcd) for program requirements.

For newly constructed properties that have not been previously occupied, inspection reports are recommended but not required.

### **3-7 Appraisal Report**

MOHCD requires a fair market appraisal to be completed to Uniform Standards of Professional Appraisal Practice standards by qualified appraisers holding a California Certified Appraisal License (issued by the Office of Real Estate Appraisers), preferably with a Member of the Appraisal Institute member designation (issued by the Appraisal Institute), and with experience valuing similar properties in the Bay Area. A color copy of the appraisal report must be attached to the DALP Lender Package. The appraisal report may not be no more than ninety (90) days old at the time MOHCD receives the DALP Lender Package. For appraisal reports older than ninety (90) days but not exceeding six (6) months, MOHCD may accept a recertification of value issued by the original appraiser. The Recertification of Value must confirm whether there have been any changes to the subject property or its market value since the time of the original appraisal.

## **SECTION 4     FINANCING REQUIREMENTS**

### **4-1     Primary Financing Requirements**

Borrowers who apply for a DALP loan must be able to qualify for a first mortgage (known as primary loan) from a MOHCD-Approved Lender before submitting a Pre-Approval application for a DALP loan. Borrowers must have sufficient funds to meet the required down payment and necessary reserves to close the purchase transaction. Unless approved by MOHCD, the DALP loan must be in second position behind the first mortgage.

#### **A. Impounds**

The first mortgage lender must collect and manage impound accounts for payment of property taxes, hazard insurance, and monthly mortgage insurance premium (if applicable) for the term of the first mortgage loan.

#### **B. Property Tax and Insurance Calculations**

When determining the monthly amount of property taxes and hazard insurance, the following standard factors will be used, unless documentation can be provided to justify actual figures:

- Property Taxes: 1.25% of the Purchase Price, adjusted monthly.
- Hazard Insurance: 0.2% (0.002) of the loan amount, adjusted monthly.

#### **C. First Loan Term**

The first mortgage loan must be a 30-year fixed-rate mortgage, and the mortgage payment must be fully amortized. The following types of first mortgage loans are not allowed while a DALP loan is outstanding: reverse mortgage, stated income, adjustable-rate mortgage (ARM), interest-only, negative amortization, and balloon payments. MOHCD reserves the right to identify additionally prohibited loan programs and/or characteristics.

#### **D. FICO Score**

MOHCD does not establish a minimum FICO score for DALP Borrowers. Lenders determine the minimum FICO score according to their own guidelines and loan products.

#### **E. Co-Signing**

Non-household members may not co-sign for a DALP loan.

#### **F. Loan Signing**

All applicants must be present to sign loan documents. No signatures under the power of attorney are allowed. Signing in another country or state or out of the San Francisco Bay Area is not permitted without MOHCD's prior written approval.

## **G. Interest Rate and Closing Costs**

Lenders are allowed to charge only commercially reasonable rates with customary and reasonable costs necessary to close the mortgage loan. Excessive origination points and upfront fees (except third party credit reporting, appraisal, and inspection fees) are not allowed. Discount points paid for a rate buy-down is not allowed unless the buy-down is for the purpose of loan qualification, such as enabling the Borrower to meet the maximum DTI Ratio established for the first mortgage loan approval. In such a case, the Lender is required to evidence the need for the buy-down by providing the underwriting documents, such as Underwriting Transmittal Summary (Form 1008), and AUS findings. However, in no event may the amount of closing costs exceed three percent (3%) of the Purchase Price. Please note, loans that are considered Higher Priced Mortgage Loans (HPML) pursuant to rules under Section §1026.35 of Regulation Z issued by the Consumer Financial Protection Bureau (CFPB) are prohibited.

## **H. Third-Party Credits and Contributions**

Credits and contributions from a third party, such as the seller, the real estate agent or broker, or the Lender, are allowed for non-recurring loan closing costs. All credits must be used in escrow; no more than \$250 cash may be paid to Borrowers at close of escrow. Any excess cash must first be applied toward the reduction of the DALP loan amount.

## **I. Real Estate Commissions**

### **1. Maximum Commission Covered by DALP**

DALP Borrowers are required to work with licensed real estate agents as part of the home-buying process. Real estate agent commissions are fully negotiable and not fixed by law; however, they must align with customary and reasonable market standards. If a Borrower is required to pay their agent's commission, the DALP loan may cover up to a maximum of 2.5% of the Purchase Price. If the commission exceeds this amount, and it is approved by MOHCD, any portion above 2.5% must be paid by the Borrower using their own funds.

### **2. Licensed Real Estate Agents Acting as Their Own Agent**

If a DALP Borrower is a licensed real estate agent, they may act as their own agent in the purchase of the Property and earn a real estate commission, subject to the following requirements: (a) seller must agree to pay for the Borrower's real estate commission; (b) Borrower must satisfy the minimum borrower contribution amount under Section 4-2(E); (c) after the minimum borrower contribution has been satisfied, the commission earned in the purchase of the Property must be first used to cover the Borrower's portion of closing costs, and second as additional down payment to purchase the Property to reduce the DALP loan; and (d) Borrower shall not receive any cash disbursement from escrow that exceeds \$250 (see Section 1-5).

The commission earned at the close of escrow will not count toward the borrower's minimum contribution, income, or assets. To be an eligible source of funds for closing costs and down payment, Borrower must submit to MOHCD the following documents for approval: (i) a copy of Borrower's current real estate license from the California Department of Real Estate, and (ii) the settlement statement for the DALP transaction reflecting the commission earned by the Borrower from sales proceeds, and such earned commission amount will be credited and used towards the Borrower's portion of closing costs and purchase of the Property.

## 4-2 DALP Loan Requirements

### A. DALP Loan Amount

The maximum DALP loan amount is \$500,000. The qualifying loan amount will be the minimum amount necessary based on the Borrower's financial needs in the purchase of a Primary Residence. See Section 6-4(B) (*DALP Loan Amount Changes*) of this Manual for the prohibited DALP loan amount changes.

### B. DALP Repayment

Unless specifically required by certain programs under this Manual, the DALP loan has no interest and no monthly payment; it is a deferred loan due upon sale, transfer of the property, or non-compliance with DALP rules or contractual obligations, including, but not limited to, unauthorized lease of the property or unauthorized title transfer of the Property (the "Maturity Date").

### C. LTV and CLTV

The minimum first mortgage Loan to Value (LTV) cannot be less than fifty percent (50%) of the Purchase Price or appraised value of the Property, whichever is less. The maximum Combined Loan to Value (CLTV) cannot exceed one hundred five percent (105%), which includes the first mortgage, DALP, and any other borrowed subordinate financing secured by the Property.

### D. Debt Ratios

#### 1. Front-End or Housing Expense-To-Income Ratio

The Front-End Ratio cannot be lower than twenty-eight percent (28%) and no higher than forty-three percent (43%).

The Front-End Ratio is the ratio of monthly housing expenses as listed below to the gross Household Income. The monthly housing expenses include principal and interest payments on the first mortgage, principal and interest payments on subordinate, non-deferred loans (if any), private mortgage insurance premium (if applicable), property taxes (including special assessments taxes), hazard insurance, Homeowner's Association Dues, and other housing expenses approved by MOHCD.

MOHCD may consider a maximum Front-End Ratio up to forty-five (45%) if two or more of the following indicators are present: (i) proven ability to devote a larger amount of income to housing expenses—the applicant has successfully demonstrated an ability to make rental payments for twelve (12) consecutive months that are equal to or greater than the proposed monthly payments for the Property; (ii) at least six (6) months of housing expenses in reserves through Liquid Assets, or at least twelve (12) months of housing expenses in reserves through non-Liquid Assets and retirement accounts; (iii) a large down payment (twenty percent or more) toward the purchase of the Property; (iv) FICO score greater than 700; and (v) the proposed housing expenses will not increase more than five percent (5%) over previous housing expenses.

## 2. Back-End Ratio or Total Debt-To-Income (DTI) Ratio

The Back-End or DTI Ratio cannot be higher than forty-five (45%).

The Back-End or DTI Ratio is the ratio of monthly housing expenses, plus all other monthly recurring debts as listed below, to the gross Household Income. Unless otherwise approved by MOHCD, monthly recurring debts generally included in DTI Ratio are:

### a) *Installment Payments*

Installment debts with a remaining term of ten (10) months or more must be included to the total DTI Ratio.

### b) *Revolving Accounts*

The payment amount listed on the credit report for each revolving account, or if no payment amount is listed on the credit report, the greater of ten dollars (\$10) or five percent (5%) of the balance.

### c) *Lease Payments*

The amount of all lease payments.

### d) *Child Support*

All child support (including alimony or separation maintenance) obligations with a remaining term of ten (10) months or more.

### e) *Student Loans*

Student loans with a remaining term of ten (10) months or less, or on an income-driven payment plan with a zero (\$0) payment (as verified through student loan documentation), may be excluded from the total DTI Ratio. For student loans in deferment or forbearance, the following guidelines apply:

- Include the monthly payment as reported on the credit report.
- If there is no monthly payment or the monthly payment amount reported on the credit report is zero: (i) use one percent (1%) of the outstanding loan balances, as reported on the credit report; or (ii) use the actual documented payment, provided the payment will fully amortize the loan over its term.

### f) *Loans Secured by Financial Assets*

When an applicant uses their financial assets—life insurance policies, 401(k) or 403(b) accounts, individual retirement accounts, etc.—as security for a loan, the applicant has a contingent liability. MOHCD will include this contingent liability as part of the applicant's recurring monthly debt obligations when determining the applicant's total DTI Ratio. A copy of all applicable loan instruments will be required to verify the debt payment.

## 3. Debts Exclusions from DTI Ratio

The following debts may be excluded from the recurring monthly obligations and the DTI Ratio:

**a) Court-Ordered Assignment of Debt**

When an applicant has outstanding debt reflected on the credit report that was assigned to another party by a court order (such as under a divorce decree) and the creditor does not release the applicant from liability, the applicant has a contingent liability. MOHCD will exclude this contingent liability as part of the applicant's monthly debt obligation. A copy of the final divorce decree (as described in Section 2-2 (*Household Requirements*) of this Manual) must be provided in order to exclude it from the DTI Ratio.

**b) Open 30-Day Charge Accounts**

Open 30-day charge accounts require the balance to be paid in full every month. MOHCD does not require open 30-day charge accounts to be included in the DTI Ratio. However, sufficient funds must be verified to cover the account balance, in addition to any funds required for closing costs and reserves.

**c) Payoff or Paydown of Debt for Qualification**

As indicated in Section 1-5 (*Ineligible Uses of Funds*) of this Manual, DALP funds cannot generally be used to pay off or pay down debts unless required by the Lender in order to qualify an applicant for the first mortgage. If an applicant is required by the Lender to pay off or pay down debts in order to qualify, these items must be paid by the applicant from their Household's Liquid Assets allowable under this Manual. In such case, the Lender is required to evidence the need by providing the underwriting documents, such as Underwriting Transmittal Summary (Form 1008), and AUS findings. If an applicant has insufficient Liquid Assets to pay off or pay down such debts, an applicant may submit a request to MOHCD to use a portion of a DALP loan to pay off or pay down their debt. An applicant's request will be carefully evaluated based on an applicant's history of credit use and subject to MOHCD's prior written approval on a case-by-case basis. Installment loans that are being paid off or paid down to ten (10) or fewer remaining monthly payments will not be included in the DTI Ratio. Revolving account balances that are being paid off at or prior to closing will not be included in the DTI Ratio. The amount of the debts must match the amount on the Closing Disclosure or Settlement Statement as applicable.

**d) Debts Paid by Others**

When an applicant is obligated on a debt—but is not the party who is actually repaying the debt—MOHCD may exclude the monthly payment from the applicant's recurring monthly obligations. In order to exclude the debts from the applicant's DTI Ratio, MOHCD requires the most recent twelve (12) months of canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

**e) Authorized User Accounts**

The Borrower must qualify for the DALP loan with all payments under accounts where there is another authorized user that is not the applicant unless one of the following applies:

- The authorized user credit line belongs to a co-applicant on the loan, or
- It can be documented that someone else other than the Borrower is making the payment. See *Debts Paid by Others* (Section 4-2(D)(3)(d) above) for requirements.

The monthly debt obligations guidelines under the DALP program are designed to be consistent with the secondary mortgage market (Fannie Mae or Freddie Mac) underwriting guidelines, wherever possible, while serving the intent of the program. For areas not covered in this Manual or updated by the secondary mortgage market after publishing this Manual, MOHCD may, at its sole discretion, follow the updated secondary market underwriting guideline, when deemed appropriate.

## E. Minimum Borrower Contribution Toward Purchase Price

Borrower must contribute a minimum of one percent (1%) of the Purchase Price of the Property toward down payment and/or closing costs. The entire amount can come from gifts, if necessary. Borrower must have sufficient funds to meet the required buyer contribution and necessary reserve funds prior to submitting a Pre-Approval application for a DALP loan.

## F. Housing Cost Increase Assessment

As part of MOHCD's underwriting for homebuyer assistance programs, Borrowers must demonstrate not only income eligibility but also the financial capacity to sustain ongoing housing expenses. When proposed housing expenses (as outlined in Section 4-2(D)(1) of this Manual) significantly exceed an applicant's current housing expenses, MOHCD requires additional financial documentation and analysis to ensure the cost of homeownership is financially sustainable for the Borrower ("**Housing Cost Assessment**").

### 1. Housing Cost Assessment Requirement

A Housing Cost Assessment will be required when both of the following occur:

- a) Borrower's proposed monthly housing expenses (as outlined in Section 4-2(D)(1) of this Manual) exceed one hundred fifty percent (150%) of their current monthly housing expenses, or the Borrower currently lives rent-free or in nominal-cost housing (e.g., staying with family without paying rent or utilities); **and**
- b) Borrower has no less than three (3) months of proposed housing expenses in reserves through Liquid Assets. This requirement does not apply if the Borrower makes a large down payment of twenty percent (20%) or more toward the purchase of the Property using their own funds.

### 2. Approval of Eligibility Based on Housing Cost Assessment

Borrowers subject to the Housing Cost Assessment must demonstrate all of the following:

**Reserves:** At least two (2) months of proposed housing expenses in reserves through Liquid Assets, with the required balance seasoned for a minimum of sixty (60) days at the time MOHCD issues final approval. Retirement accounts are not eligible for this purpose under the Housing Cost Assessment.

- **Household Budget (Current and Proposed):** A current monthly budget and a proposed post-purchase budget, each reflecting fixed and variable monthly expenses, including housing expenses (if applicable). These budgets shall be prepared with assistance from a HUD-approved



housing counselor. The proposed budget must demonstrate financial sustainability, meaning total monthly expenses not exceeding ninety-five percent (95%) of the Borrower's household net monthly income.

- **Action Plan:** An action plan developed through individual counseling with a HUD-approved housing counselor. This must include a written statement signed and dated by the Borrower, explaining how the Borrower plans to manage increased housing expenses. The plan should reflect realistic, long-term financial sustainability for the Borrower.

## G. Post-Purchase Reserves

Borrower must have at least two (2) months of housing expenses as listed in Section 4-2(D)(1) (*Front-End or Housing Expense-To-Income Ratio*) in reserves after purchasing the Property. This provides assurance that the mortgage can be paid even if the Borrower is experiencing cash flow problems.

Acceptable sources of reserves include Liquid Assets listed in Section 2-4(A)(1) (*Liquid Assets Inclusions*) but must come from a verifiable source (held in a financial institution). In addition, vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) and 403(b) accounts) may also be acceptable sources of funds for reserves as detailed in Section 2-4(C)(3)(a) (*Using Retirement Assets as Reserves*) of this Manual.

All reserves must be seasoned for a minimum of sixty (60) days, meaning the funds must have been held in the Borrower's Liquid Assets account, or in an eligible retirement account, for at least sixty (60) days prior to MOHCD's final approval.

## H. Allowable Age of Documents

Information used to determine DALP loan eligibility must be current. The table below shows the maximum age of documents allowable at the time of submission of the DALP Lender Package.

DALP Documentation Age Requirements	
First Mortgage Loan Commitment	at least 30 days remaining to close
Purchase Agreements	at least 20 business days remaining to close
Income	30 days
Assets	45 days
Credit, Title, Appraisal & Inspection Reports	90 days
Homebuyer Education	12 months

## I. Form of Title

Tenancy-in-common is not a permitted form of ownership. Unmarried persons or three or more Borrowers must hold title as joint tenants. MOHCD may identify additionally prohibited title vesting.

## **J. Documentation and Security**

The following documents must be executed by the Borrower to secure a DALP loan after satisfaction of all requirements for funding:

- Program Affidavit, executed by Borrower, acknowledging that s/he has read this Manual and program restrictions.
- Deed of Trust, executed at the close of the escrow by Borrower for the benefit of the City to secure the Promissory Note. The Deed of Trust is subordinate to the first mortgage deed of trust, and in the second lien position unless otherwise approved by the City.
- Promissory Note, executed at the close of the escrow by Borrower for the benefit of the City and secured by the Deed of Trust. The Note provides for a share of appreciation and is due and payable, in full, according to the loan terms.

## **K. Post-Purchase Education**

All Borrowers are expected to attend at least six (6) hours of Post-Purchase Education workshops within twenty-four (24) months of purchase of the Property. Homeowner education workshops cover topics such as HOA rights and responsibilities, property taxes, refinancing the first mortgage, and property/home maintenance. As part of the closing costs, Borrower pays a fee to ensure attendance at a “Post Purchase” workshop, which will be provided by a nonprofit agency. This fee may not exceed two hundred dollars (\$200) and will be authorized by MOHCD in the City’s escrow instructions. The fee will be refunded in full to Borrowers who complete all six (6) hours of post-purchase education within twenty-four (24) months of purchase. After twenty-four (24) months of the date of purchase, any unclaimed deposit will be retained by the designated nonprofit agency. MOHCD will provide information about the date, time, and location of post-purchase workshops on its website at [sf.gov/mohcd](https://sf.gov/mohcd), and will send regular announcements to new homeowners via mail and email.

MOHCD-Approved Lenders must follow the Real Estate Settlement Procedures Act (12 U.S.C. 2601 et seq.) for proper disclosure of the Post-Purchase Education fee.

## **L. Compliance with Federal, State and Local Laws and Ordinances**

Program funds must be used in accordance with federal, state, and local laws, regulations, and directives as they apply.

### **4-3 DALP Loan Calculation**

Unless a default occurs, the DALP loan is deferred from the date of the initial purchase. The loan is due and payable on the maturity date of the loan or on closing date of the resale of the Property. The payoff amount due from Borrower is (i) the principal amount of the loan plus (ii) a proportional share of the appreciation of the Property, as set forth in the Promissory Note.

The proportional share will be based on the ratio of the original down payment assistance loan amount to the Fair Market Value of the Property at the time of purchase. The Fair Market Value of the Property is the lower of the Purchase Price or the appraised value of the Property at the time of purchase. At the time that the Property is sold, or the loan is repaid, MOHCD will determine the fair market value of the property. The fair market value will be greater of the resale price or the appraised value at the time of repayment. If the fair market value as determined by MOHCD under this paragraph and the Promissory Note has not increased, then the Borrower will be obligated to repay the principal amount of the loan only. If there is a conflict between this Manual and Promissory Note, the Promissory Note will control.

For purposes of determining the appraised value, MOHCD requires a fair market appraisal to be completed to Uniform Standards of Professional Appraisal Practice standards by qualified appraisers holding a California Certified Appraisal License (issued by the Office of Real Estate Appraisers), preferably with a Member of the Appraisal Institute member designation (issued by the Appraisal Institute), and with experience valuing similar properties in the Bay Area. MOHCD has the option, at its sole expense, to select an appraiser to conduct an additional appraisal of the Property. If the two appraisals are not in agreement as to the appraised value of the Property, the amounts determined by the appraisals will be averaged to determine the appraised value of the Property.

Example of share of appreciation: If the Borrower receives the DALP loan in the amount of \$500,000 with the Purchase Price of \$1,500,000, MOHCD's share of appreciation would be thirty three percent (33%).

$$\frac{\$500,000 \text{ DALP Loan Amount}}{\$1,500,000 \text{ Purchase Price}} = 33\% \text{ of Share Appreciation}$$

## A. Sample Calculation of Eligibility

The following example illustrates a scenario of funding eligibility based on the assumptions below. Funding eligibility for various DALP amounts depends on the variables in levels of income, household size, Property price, available assets, and first loan amount, as illustrated below.

Total Combined Income for a Household of 4 at 200% AMI:	\$288,200
Purchase Price of a Property:	\$1,500,000
Closing Costs (typically about 2% of the Purchase Price)	\$30,000
Borrower's Cash Contribution (1%):	\$15,000
First Loan Amount:	\$1,015,000
DALP Loan Amount:	\$500,000
First Loan Interest Rate:	6.875%
First Loan Term:	30 yr. fixed
Property Taxes	\$1,563/mo.
Property Insurance:	\$250/mo.
Total Front-End Ratio:	35%
Total CLTV:	101%

## B. Sample Calculation of Repayment Obligation

The following illustrates a DALP loan repayment scenario at resale or repayment:

Resale Price:	\$1,600,000
Original Purchase Price:	(\$1,500,000)
Appreciation:	\$100,000
Computation of City's Proportional Share City DALP (\$500,000) / Original Purchase Price (\$1,500,000):	33%
Share of Appreciation (33% x \$100,000):	\$33,000
Principal DALP Loan Amount:	\$500,000
Total Repayment Amount Due:	\$533,000

## 4-4 DALP Loan Servicing

### A. Prepayment Penalty

A Borrower may prepay a DALP loan without a prepayment penalty. However, prepayment must be in full; the loan cannot be partially repaid. If there is prepayment, the amount due and owing will be determined by an appraisal (at the Borrower's own cost) to determine the amount of appreciation. The appraisal must be approved by the MOHCD.

### B. Assumable/Transferable

The DALP loans are not assumable or transferable. The loans must be paid in full upon sale or title transfer of the Property.

### C. Payoff Requests

Borrowers must submit a written request for payoff. If Borrowers wish to have a third party submit a request for payoff on their behalf, they must submit a signed authorization allowing MOHCD to provide information to the third party. In addition, Borrowers must submit a ratified Purchase Agreement (if applicable), and/or a fair market appraisal report obtained at their own cost and dated within ninety (90) days of submitting the payoff request. Please visit our website at [sf.gov/mohcd](https://sf.gov/mohcd) for the Loan Payoff Request Package.

### D. Refinance/Subordination

Borrowers must obtain MOHCD's prior written approval of any refinancing of a DALP loan and the addition of any lien on the Property regardless of lien position. At all times, the City's lien position must be maintained and will only be subordinated pursuant to the MOHCD Subordination Policy. Borrowers must follow the MOHCD Subordination Policy at <https://www.sf.gov/refinancing-and-subordination>. No earlier than twelve (12) months after purchase, Borrowers may submit a request to MOHCD to refinance their first mortgage for the following purposes:

- Lower interest rate
- Shortened first mortgage loan term
- Lower monthly payment

When requesting approval to refinance, Borrowers must:

- Use a MOHCD-Approved Lender
- Be up to date with Monitoring and in compliance with the DALP program rules
- Pay an administrative fee posted on MOHCD's website
- Have no delinquent mortgage payments, property taxes, HOA payments (if applicable), unauthorized loans, or liens
- Satisfy any other requirements outlined in MOHCD's Subordination Policy

The same individuals that were named as Borrowers on the DALP loan used for the initial purchase must also be named as Borrowers on any refinancing loan unless MOHCD has approved the addition of a Borrower by marriage or domestic partnership or the removal of a Borrower by death, divorce, or dissolution of domestic partnership or similar change under Section 5-6(F) (*Title Changes*) of this Manual.

MOHCD will not review the Household Income for DALP program qualification upon refinancing unless otherwise indicated in the specific program guidelines (such as those described in APPENDIX 1-E-10 under the BMR-DALP Program of this Manual). Borrowers may not access cash equity from refinancing until the DALP loan is repaid in full. Owners of a Below Market Rate (BMR) unit should consult with the Procedures Manual for additional requirements.

## **E. Home Equity Lines of Credit and Home Equity Loans**

MOHCD does not allow DALP Borrowers to open Home Equity Line of Credit or Home Equity Loans. Borrowers who use such programs are in violation of the program restrictions and will not be allowed by MOHCD to refinance their DALP loans. The DALP loan will be immediately due and payable together with City's Share of Appreciation if a Borrower is deemed out of compliance with this policy or any other applicable program policies.

## **SECTION 5    GENERAL REQUIREMENTS AND COMPLIANCE**

### **5-1    Title Insurance Policy**

The outstanding principal balance of the down payment assistance loan must be covered by an ALTA Lender's Policy of Title Insurance naming the City and County of San Francisco c/o Mayor's Office of Housing and Community Development as its interests appear.

### **5-2    Non-Discrimination and Privacy Requirements**

All Borrower eligibility requirements contained in this Manual must be applied without regard to the race, creed, color, gender, religion, or national origin of the Borrower. Lenders must be sensitive to the privacy interests of the Borrowers, and use the information received only for purposes of verifying the Borrowers' eligibility for a DALP loan. It should be noted that all Borrowers under DALP are subject to the requirements of the Sunshine ordinance and may have any records provided to the City become a matter of public information upon an appropriate request.

### **5-3    Public Records Act**

The City and County of San Francisco is subject to the requirements of California Public Records Act, Government Code Section 6250, et seq. The Public Records Act provides that virtually all documents held or used by the City in the course of conducting the public's business are public records which the City, subject to certain limited exemptions, must make available for inspection and copying by the public. Applications for loans or grants from the City are public records as are the completed loan and grant documents. Under Section 67.24(e) of San Francisco Administrative Code, applications for financing and all other records of communications between the City and the Borrower must be open to public inspection immediately after a contract has been awarded. All information provided by Borrower which is covered by that ordinance (as it may be amended) will be made available to the public upon appropriate request.

### **5-4    Conflict of Interest**

The purpose of the homeownership loans and housing programs administered by MOHCD is to assist low-income and middle-income households with reaching the goal of homeownership and to increase housing opportunities in San Francisco. MOHCD employees are eligible to participate in these programs with the exception of those employees who directly implement or approve homeownership loans or assistance, including Director, Deputy Director, Director of Homeownership Programs, Chief Financial Officer, and other program and fiscal managers and staff who qualify, review, approve, or disburse MOHCD's homeownership and housing program loans. This policy also applies to immediate family members of said staff including spouse and children.

### **5-5    Application and Documentation**

Applications and supporting documents submitted in the application must be presented in English or translated to English by a certified translator. All foreign income and assets must be converted to U.S.

Dollars based on the exchange rate at the time of underwriting for qualifying purposes. Applicants who need language assistance in submitting an application may contact their housing counselor. However, the translation of the original documents needs to be completed by a certified translator.

## **5-6 General Program Restrictions**

It is important that Borrowers understand the program rules and procedures fully. Any violation of the program rules and restrictions may result in the City declaring the Borrower to be in default of the loan and may lead to the immediate repayment of the DALP loan and other enforcement actions.

The following restrictions apply to all Borrowers for the entire loan term:

### **A. Owner Occupancy**

Borrower must occupy the Property as their Primary Residence. All members of the Household, unless otherwise approved by MOHCD as Temporarily Absent Household Members outlined in Section 2-2(A), must begin occupying the Property as their Primary Residence within sixty (60) days of the purchase. Borrower may only have one Primary Residence at any given time.

### **B. No Renting**

Except as provided in this section, Borrowers are prohibited from leasing, subleasing, or exchanging any part of the Property to another party without MOHCD's prior written approval. No part of the Property can be leased, subleased, or exchanged as a short-term rental or listed on short-term rental or vacation rental sites (including, but not limited to, websites like homeexchange.com or similar sites) at any time. Borrowers are also prohibited from leasing to another party a parking space or any other space that was purchased with the Property.

In its sole discretion, MOHCD may grant consent to a Borrower to rent all or part of their Property for up to twelve (12) months. Circumstances considered include:

- Borrower is required to temporarily relocate due to documented employment requirements;
- Borrower is experiencing temporary financial hardship where the Household's monthly housing expenses exceed fifty percent (50%) of the total Household Income; or,
- For other reasons deemed acceptable by MOHCD in its sole discretion.

MOHCD will consider allowing temporary rental only if all of the following conditions are satisfied:

- Borrower is in compliance with all program requirements and has not previously been out of compliance.
- The total period for which the Property is leased does not exceed twelve (12) months and is not offered as a short-term rental.
- The tenant satisfies the income and other eligibility requirements placed on the program.
- The tenant acknowledges, in writing, that the rental is temporary.

- Initial rent does not exceed total documented housing expenses (including mortgage principal and interest, property taxes, HOA dues, and insurance).
- Borrowers experiencing temporary financial hardship are required to reside in the Property and provide MOHCD with written confirmation from a HUD-approved housing counseling agency that temporarily subletting of a portion of the Property will lead to long-term financial stability.

If the Borrower's rental request is approved by MOHCD, the Borrower shall follow the rental procedures outlined in Section V of the Procedures Manual. The Borrower may select their own tenants, unless otherwise required by MOHCD. The Borrower shall have sole responsibility for: (i) managing the tenancy, (ii) verifying the tenant's financial stability and ability to meet obligations under the lease, and (iii) ensuring compliance with all applicable laws and regulations and any other matters related to the lease agreement. Please note that MOHCD shall not be a party to the lease agreement and shall not be responsible for any monetary loss, property damage, or any other issues that may arise between the Borrower and tenant. MOHCD's approval of the tenant is solely to verify that the proposed tenant meets the program's eligibility requirements, including income and rent levels, household size, and lease term duration.

### **C. Maintenance**

Borrower will maintain the Property in compliance with all applicable laws, ordinances, and regulations and in good and clean condition. Borrower will not destroy, damage, or impair the property, allow the Property to deteriorate, or commit waste on the Property.

### **D. Hazard or Property Insurance**

The Property must be covered by a property insurance policy for a minimum of its replacement value. MOHCD must be named as an additional insured or loss payee on the insurance policy. For Condominiums or attached Townhouses, if HOA master policies do not cover replacement of the interior of the Property, the Borrower must obtain and maintain separate HO-6 condominium or other homeowner insurance policy that lists the City as an additional insured or loss payee for the life of the loan. The loss payee clause must read as follows:

City and County of San Francisco, its Successors and/or Assigns  
C/O Mayor's Office of Housing and Community Development  
1 South Van Ness Avenue, 5th Floor  
San Francisco, CA 94103

The MOHCD loan number must be properly reflected on the property insurance policy.

### **E. Monitoring**

MOHCD requires occupancy certification on an annual basis. Borrowers are required to provide information and documentation regarding occupancy status, insurance, and any other information deemed necessary by MOHCD to determine compliance with the DALP. At its discretion, MOHCD may require additional documentation after submitting the initial documentation. MOHCD will not consider



requests for subordination, title change, or other requests if Borrower is non-compliant with any program rule.

## **F. Title Changes**

For any changes to the title of the Property, Borrowers must follow the MOHCD Title Change Policy at <https://www.sf.gov/apply-title-change-your-mohcd-supported-home>.

MOHCD will not permit changes in title to the Property except as provided below. Borrowers must get written permission from MOHCD before making any changes to title. MOHCD requires documentation to approve any title change, and Borrowers must be compliant and current with Monitoring requirements to be considered for requested title changes. Mutually agreed to amendments to title documents must be recorded. MOHCD permits a change in title only for one of the following reasons:

### **1. Marriage or Domestic Partnership**

No sooner than twelve (12) months after the original purchase, the Spouse or Domestic Partner of a Borrower may be added to title and assume the same rights and responsibilities as the original Borrower.

### **2. Dissolution of Marriage or Domestic Partnership**

Submittal to MOHCD of proof of death or dissolution of marriage or Domestic Partnership is the only way to remove a Borrower from title.

### **3. Owner's Death**

When one Borrower dies, any surviving co-Borrowers previously approved by MOHCD may continue to hold title. Surviving Borrowers must notify MOHCD within sixty (60) days and provide all requested documentation before removing a deceased Borrower from title. When all Borrowers on title have died, the DALP loan is due and payable.

### **4. Living Trust**

MOHCD will consider requests to transfer title to an inter vivos (living) revocable trust from an individual only if the following conditions are met:

- The trust complies with and is governed by the laws of California.
- The Borrower must be named as the trustor, trustee, and primary beneficiary of the trust.
- There is no unusual risk or impairment of the City's rights.
- If applicable, the proposed living trust documents contain language approved by MOHCD that a transfer of the Property to a beneficiary under the living revocable trust who is not the DALP Borrower triggers the City's right of first refusal or option to purchase the Property. This requirement only applies to properties under the City Second Loan Program where the City maintains a right of first refusal. See APPENDIX 5 (*City Second Loan Program*) for detailed program information.

- Any changes to a MOHCD-authorized trust must be approved by MOHCD before those changes are made.

## **G. Default and Foreclosure**

Borrowers are encouraged to contact MOHCD as soon as possible if they are at risk of a loan default, or a foreclosure, or if HOA payments become unaffordable. MOHCD supports HUD-approved housing counseling agencies to help negotiate loan modification or explore options at no cost to Borrowers.

## **H. Personal Identifying Information (PII)**

All responsible parties involved in sales transactions under this Manual must adopt measures and best practices to safeguard confidential personal identifying information. MOHCD partners include but are not limited to lenders, housing counselors, escrow officers, agents, and brokers. Confidential Personal Identifying Information or “PII” is defined as any non-public information belonging to an applicant, resident, or participant that may put them at risk of damaging their financial standing, privacy, or reputation.

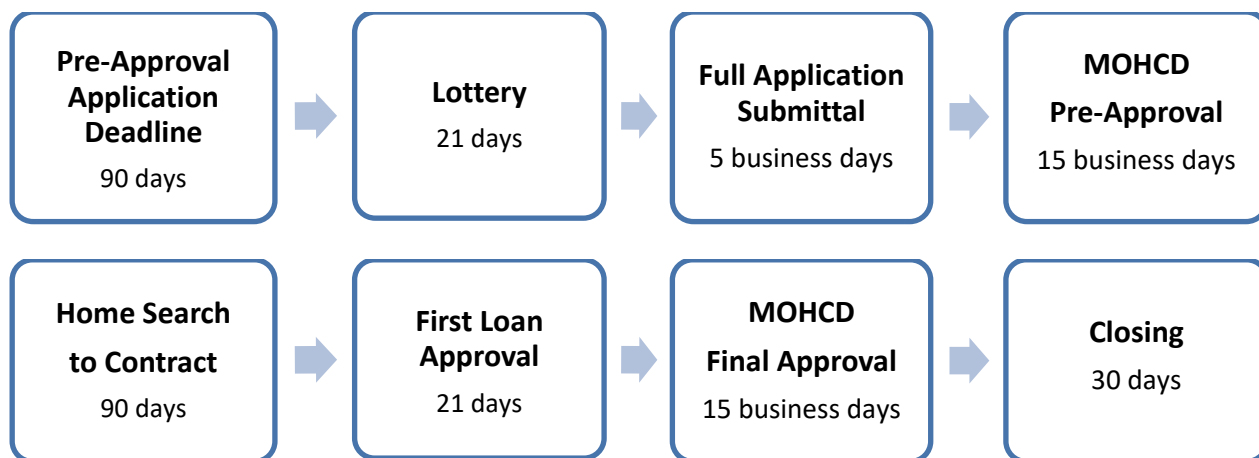
MOHCD only reports out Personal Identifying Information (PII) in aggregate form and PII is never included in reports, public documents or public websites, and can only be seen by authorized personnel. MOHCD collects data on race, ethnicity, sexual orientation and gender identity, to ensure the programs and services we fund address the needs of the vulnerable communities we serve, and to report anonymous information to key funders like HUD.

MOHCD protects PII from loss, theft, misuse and unauthorized access and disclosure. PII includes your name, address, birth date, race and ethnicity, gender, sexual orientation/identity, and household size and income. MOHCD staff follow MOHCD’s PII/PHI Guidelines, which are available upon request.

## SECTION 6 PROCEDURES OF OBTAINING A DALP LOAN

### 6-1 DALP Application Process and Timeline

Below are the process and an estimated timeline for the purchase of a Property with DALP funds. The entire process may take up to ten (10) months from the day MOHCD begins accepting applications. All times listed are approximate; the processing times can vary depending on many reasons including the applicant's lottery ranking, first mortgage loan approval, additional information required to determine an applicant's eligibility, and the real estate market.



**Pre-Approval Application Deadline:** New DALP opportunities will be marketed for at least ninety (90) days, during which time interested buyers must submit a complete DALP Pre-Approval application to be included in the lottery. See more information in Section 6-3(B) (*Housing Lottery*) below.

**Lottery:** A public lottery will be held by MOHCD within twenty-one (21) days after the DALP Pre-Approval application deadline. See more information in Section 6-3(B) (*Housing Lottery*) below.

**Full Application Submittal:** After the lottery, MOHCD staff will contact applicants in lottery rank order and invite them to submit a DALP Full Application. The DALP Full Application must be submitted within five (5) business days after MOHCD contacts the applicant. See more information in Section 6-3(D) (*Submitting a Full Application*) below.

**MOHCD Pre-Approval:** MOHCD will review and process the lottery applications in the order of the lottery results. MOHCD will determine whether or not an applicant is income-qualified within fifteen (15) business days after receipt of the DALP Full Application. If an applicant is income qualified, MOHCD will issue a Pre-Approval letter. See more information in Section 6-3(E)(1) (*MOHCD Pre-Approval*) below.

**Sales Contract:** During the 90-day Pre-Approval period described below, the applicant must enter into a contract of sale to purchase a Primary Residence. See more information in Section 6-3(F)(1) (*Purchase Period*) below.

**First Loan Approval:** Within twenty-one (21) days after the execution of a sales contract, the Lender must issue the first loan approval and submit a complete DALP Lender Package to MOHCD. See more information in Section 6-3(F)(2) (*DALP Lender Package Submittal Period*) below.

**MOHCD Final Approval:** Within fifteen (15) business days after receipt of the complete DALP Lender Package, MOHCD will review the DALP Lender Package and, if approved, issue a final approval letter (“Commitment Letter”) that expires after thirty (30) days. See more information in Section 6-3(F)(3) (*MOHCD Review Period*) and Section 6-3(F)(4) (*Loan Commitment Period*) below.

**Closing:** The closing of the purchase of the Primary Residence must occur within thirty (30) days after the date of the Commitment Letter. During these thirty (30) days, the applicant must attend a pre-closing meeting with MOHCD, execute the Lender and the City’s loan documents. See more information in Section 6-8 (*Closing the Sale*) below.

## 6-2 DALP Pre-Approval and Reservation

To obtain a DALP loan, a Borrower must first apply for Pre-Approval of a DALP loan and request a reservation of DALP funds (a Reservation). If a Borrower is pre-approved, MOHCD will issue a Pre-Approval letter to eligible Borrowers and a Reservation, provided that Borrower satisfies the requirements set forth below. A Reservation helps eligible Borrowers understand how much they can afford when looking to purchase a Primary Residence. Reservations will be allocated through a lottery process as further described in Section 6-3 below and are always subject to availability of DALP funds within the same funding round.

A Reservation does not constitute final loan approval nor guarantee funding. A DALP loan will only be funded when the Borrower receives a loan Commitment Letter from MOHCD, satisfies the Reservation timeframe described below in Section 6-3(F) (*Reservation Timeframe*), and meets all DALP requirements.

## 6-3 Reservation Procedures

### A. Reservation Request

To apply for a DALP Loan and Reservation, the Borrower must first submit a complete DALP Pre-Approval application to MOHCD by the application deadline established, through the DAHLIA San Francisco Housing Portal (<https://housing.sfgov.org>) or another application platform as determined by MOHCD. A complete DALP Pre-Approval application must include ALL of the following:

- DALP Pre-Approval Application;
- Verification of Homebuyer Education form dated within twelve (12) months of the application;
- Mortgage loan pre-approval letter within one hundred twenty (120) days of the application; and
- For First Responders and Educator program applicants, the applicant’s paystub or letter of employment dated within forty-five (45) days of the application, listing their job title and full-

time or part time status (this is only required for applicants who are First Responders and/or Educators to prove eligibility for the FRDALP, Educators-DALP, and TND programs).

Only one (1) Reservation is permitted per Household. Any duplicate Pre-Approval and Reservation applications and applications where any Household member appears on more than one Pre-Approval and Reservation application will automatically result in the City's disqualification of all applications.

## **B. Housing Lottery**

MOHCD will hold a public lottery to select DALP applicants. Applicants will be invited to attend the lottery, but attendance is not mandatory. The following guidelines are applicable to the lottery process for all applicants:

- At least ninety (90) days before a lottery, MOHCD will start to accept complete DALP Pre-Approval applications.
- Complete DALP Pre-Approval applications received by the application deadline will receive a numbered lottery ticket and be placed in MOHCD's electronic system for the lottery.
- At least three (3) business days before the lottery, MOHCD will generate a list of all applicants that will be included in the lottery. The list will also indicate the applicants who are First Responders and Educators (See Section 6-3(C) (*Lottery Pools*) below for more information).
- At the lottery, MOHCD will employ a publicly available computer program to generate a random lottery rank for each and every complete application without regard for the various lottery pools. All applicants with lottery ticket numbers will be assigned a lottery rank.
- Applications will not be reviewed for eligibility before the lottery; eligibility review will only occur after the lottery ranking has been finalized. Applications will be reviewed in the order of their lottery ranking numbers until all available DALP funds are exhausted.
- Lottery results will be posted on the DAHLIA San Francisco Housing Portal or the MOHCD website, and will include only the lottery ticket numbers, not the names of applicants. The results of lotteries with ten (10) or fewer applicants may be announced by the MOHCD to each applicant in addition to posting to the MOHCD's website.
- MOHCD reserves the right to cancel any lottery if MOHCD does not receive a sufficient number of applications to reserve all DALP funds for a particular funding round. MOHCD will process all applications in rank order from the lottery results.

## **C. Lottery Pools**

Once the lottery has been completed and ranking numbers are assigned, the applications are grouped into three pools:

- Educators Downpayment Assistance Loan Program (Educators-DALP) pool;
- First Responders Downpayment Assistance Loan Program (FRDALP) pool; and
- General Downpayment Assistance Loan Program (General-DALP) pool

Educator applicants in the Educators-DALP pool will be reviewed first. Next will be First Responder applicants in the FRDALP pool, followed by the applicants in the General-DALP pool. Depending on the funds available in a Fiscal Year, MOHCD may switch the review order between Educators-DALP and FRDALP, as needed.

First Responder and Educator applicants who are not selected in the lottery under the FRDALP and Educators-DALP pools can still be considered in the General-DALP lottery pool under the DALP funds if they meet the DALP requirements including the AMI limits of the funding sources. In addition, First Responder and Educator applicants must submit proof of employment, such as a copy of paystub or letter of employment dated within forty-five (45) days of the application, listing their job title to prove eligibility for the FRDALP or Educators-DALP program. See APPENDIX 2 and APPENDIX 3 for FRDALP and Educators-DALP program eligibility requirements.

#### **D. Submission of a Full Application**

After the lottery, MOHCD staff will contact applicants in lottery rank order and invite them to submit a DALP Full Application. The DALP Full Application must be submitted to MOHCD within five (5) business days after MOHCD contacts the applicant. MOHCD Staff will notify applicants by mail or email to request a complete application and documentation, and MOHCD may contact several applicants for one DALP loan opportunity. It is important to note that being asked to submit an application is not a guarantee that an applicant will be given the opportunity to reserve DALP funds, because higher-ranked applicants may be offered and reserve all available DALP funds before a particular applicant's application is considered.

Applicants should be prepared to provide the DALP Full Application by the date of the lottery to ensure their ability to meet the short 5-business day turnaround time. Applicants who want assistance from their housing counselor or another third party during the application period can list an additional person on their application to receive notices from MOHCD to assist in submitting the application.

All members of the applicant's Household that are eighteen (18) years or older must supply the following documentation to MOHCD with the DALP Full Application within five (5) business days:

- last three (3) years of Federal income tax returns with all schedules (a filing extension will not be accepted);
- last three (3) years W-2 and/or 1099 forms;
- current three (3) consecutive pay stubs, or if self-employed, a year-to-date P&L Statement;
- current three (3) consecutive months bank or assets statements from all bank or Liquid Asset accounts;
- California Driver's License, State or City and County of San Francisco City ID, or other Government issued photo ID;
- current lease agreement with all pages with proof of three (3) most recent rent payments (If rent-free, provide a signed letter from the landlord or owner describing housing arrangement);
- completed gift letter and evidence of donor availability of funds (if applicable); and

- any other documents listed on the application.

## E. Reservation Review and Confirmation

MOHCD will review and process the pre-approval applications in the rank order of the lottery results and send a written response to approve or deny the application and requested Reservation within fifteen (15) business days after receipt of the DALP Full Application. Processing time may vary depending on the volume of applications received and the complexity of the loan.

### 1. MOHCD Pre-Approval

If the applicant's income meets the program criteria, MOHCD will issue a Pre-Approval letter and **reserve the DALP funds (make a Reservation) for up to ninety (90) days**. During this review period and through close of escrow, applicants should contact their housing counselor before making any large purchases or increasing regular income. Changes to Liquid Assets, employment status, or levels of income could impact the ability to qualify for a first mortgage loan and the applicant's eligibility for the DALP loan. Applicants must remain income-qualified through the close of escrow.

### 2. Disqualified Pre-Approval Applications

If the applicant's Pre-Approval application is disqualified, MOHCD will issue a disqualification letter that explains the reason(s) for the disqualification and provide information on the appeal process.

### 3. Applicant Appeals

If a disqualified applicant believes the disqualification decision was reached in error and has additional information and documentation that could reverse the decision, the applicant may ask for reconsideration. Appeal requests must be made in writing and must clearly state the basis for the applicant's belief that MOHCD made an error in disqualifying the application. The appeal request must include supporting documentation that corrects the error. Applicants must submit an appeal request within three (3) business days after the date of the disqualification letter. The disqualification letter will include the actual deadline for appeal and a link for secure electronic submission of sensitive documents.

MOHCD will work to respond to an appeal for reconsideration within five (5) business days from the date of receipt of the appeal request. During the appeal review period, MOHCD will set aside the requested Reservation until all reconsideration processes have been completed.

## F. Reservation Timeframe

A Reservation will be subject to the following time frame unless otherwise approved by MOHCD.

### 1. Purchase Period (90 Days)

A pre-approved applicant has ninety (90) days from the date of the MOHCD Pre-Approval letter to enter into a Sales Contract to purchase a Primary Residence. The Sales Contract must allow at least a 60-day closing period with at least a 45-day financing contingency. The contract must allow these periods to be extended to accommodate the buyer and the seller.

If a pre-approved Borrower fails to enter into a sales contract by the end of such 90-day period, the Reservation will be terminated, and the reserved DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist.

Upon execution of a sales contract, Borrower must promptly notify MOHCD and submit a copy of the fully-executed sales contract within 48 hours of ratification. After receipt of the fully-executed sales contract, the Reservation will be extended from the date of the sales contract for an additional twenty-one (21) days. The Borrower must then immediately work with his or her Lender on submittal of the DALP Lender Package to MOHCD.

**Note on Shorter Closing Period and Contract Extension:** If the Sales Contract specifies a shorter closing period, the Borrower must work closely with their Lender to ensure the complete DALP Lender Package is submitted to MOHCD within the shorter timeframe. The contract must still include sufficient time for MOHCD to process the transaction. When requesting an extension, the buyer's agent should account for MOHCD's full processing time (including MOHCD's review, approval, and fund disbursement), as well as the time needed by other parties involved in the transaction. MOHCD cannot advise on the total amount of time needed for the contract extension, but for the time required by MOHCD, the agent shall follow MOHCD's standard processing times as outlined in Section 6-1. While MOHCD will make every effort to meet or shorten processing times, it cannot guarantee faster processing and does not control the turnaround times of other parties.

## 2. DALP Lender Package Submittal Period (21 Days)

Within twenty-one (21) days following the execution of a sales contract between a buyer and a seller (with the required closing timing and financing contingency timing), the Lender must submit a complete DALP Lender Package to MOHCD with ALL of the following documentation:

- Completed DALP Lender Closing Checklist
- Fully-executed Purchase Agreement
- Lender Loan Application and Underwriting Transmittal Summary (Form 1003 and 1008)
- Last three (3) years Federal income tax returns with all schedules (a filing extension will not be accepted);
- Last three (3) years W-2 and/or 1099 forms;
- current three (3) consecutive pay stubs, or if self-employed, a year-to-date P&L statement;
- current three (3) consecutive months bank or assets statements from all bank or Liquid Asset accounts;
- California Driver's License, State or City and County of San Francisco City ID or other Government issued photo ID;
- Certificate of Completion of Homebuyer Education
- Completed gift letter, evidence of donor availability of funds and Borrower's receipt of gift funds (if applicable); and
- Fair Market Appraisal (color copy)



- General Home Inspection Report (not required for newly constructed properties)
- Pest Inspection Report (not required for newly constructed properties)
- General Release and Waiver of Liability
- Preliminary Title Report
- Mortgage Loan Commitment Letter
- Loan Estimate / Rate Lock Confirmation
- Credit Report
- Federal Income Tax Transcripts
- Verification of Employment
- Estimated Combined Settlement Statement reflecting items such as an ALTA Lender's Policy of Title Insurance for the DALP loan, Property Tax/Insurance Impound Account, Post-Purchase Education Deposit, MOHCD DALP Application Fee (the current fee and payment methods can be found on MOHCD's website at <https://www.sf.gov/information/mohcd-program-fees>)
- Wire Instructions
- Escrow deposit receipt
- All other documents listed on DALP Lender Closing Checklist

MOHCD may request additional documents or some of the above documents directly from the Borrower to expedite the application process and ensure all necessary information is provided in a timely manner.

If a sales contract has been fully executed before the issuance of DALP Pre-Approval, the Lender is required to submit the Borrower's DALP Lender Package within twenty-one (21) days following the DALP Pre-Approval. If the Lender fails to submit the Borrower's DALP Lender Package within the 21-day period, unless an extension is granted by MOHCD, the Reservation will be terminated, and the reserved DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist. Additionally, if MOHCD receives a DALP Lender Package with a sales contract that has less than twenty (20) business days remaining until closing, the package will be returned to the Lender for a contract extension.

### **3. MOHCD Review Period (15 Business Days)**

Upon submission of a complete DALP Lender Package, the Reservation will be extended up to fifteen (15) additional business days during MOHCD's review.

### **4. Loan Commitment Period (30 Days)**

Within 15 business days after receipt of a complete DALP Lender Package, MOHCD will (i) if the DALP loan is approved by MOHCD, issue a Commitment Letter that expires after thirty (30) days ("Commitment Expiration Date"), or (ii) if the DALP loan is not approved by MOHCD, issue a disqualification letter.

#### **a) MOHCD Final Approval**

If the loan is approved, the Commitment Letter must be reviewed and acknowledged by all Borrowers within five (5) business days from the date of issue. The Commitment Letter will extend the Reservation

to the Commitment Expiration Date, and the loan must close prior to or on the Commitment Expiration Date.

#### ***b) Disqualified DALP Loan***

If the loan is disqualified due to eligibility or affordability issues, the requested Reservation will not be available for another applicant until all reconsideration processes have been completed. If the Borrower fails to submit new information or documentation contesting the disqualification to MOHCD within three (3) business days from the date of the disqualification letter, the DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist (discussed in the following subsection). See Section 6-3(E)(2)-(3) above for detailed procedures for disqualification and appeals.

### **G. Reservation Waitlist**

If the demand for DALP funding exceeds the supply of funds for Reservations, a waitlist will be created and maintained until all DALP funds for a particular funding round have been disbursed or the waitlist has been exhausted. The waitlist will be maintained in the lottery ranking order of Reservation applications, and applicants will be selected in such order for processing as funds become available.

Placement on the waitlist does not mean approval of a Reservation by MOHCD. Qualification for a DALP loan will be evaluated at the time applicant is selected from the waitlist for processing.

To ensure a current and accurate waitlist, applications on the waitlist will not carry over from one DALP funding round to another. In each DALP funding round, MOHCD begins a new DALP open application process. As such, the waitlist will only be valid until the last day that DALP funds are exhausted for that particular funding round.

### **H. Pre-Approval and Reservation Extensions**

Upon the applicant's written request, MOHCD may grant an extension of up to thirty (30) days for a Reservation if there are extenuating circumstances that are beyond the applicant's control, as determined by MOHCD in its sole discretion.

In order for MOHCD to consider extending a DALP Pre-Approval and Reservation, the applicant must be able to document that they are actively searching for homes. To request a 30-day extension of the 90-day Pre-Approval period, the applicant must provide the following:

- A signed, written request explaining why the applicant needs an extension to enter into a purchase agreement;
- Copies of all the executed purchase offers including any addendums, counter offers, and denials for homes that were actively pursued during the Pre-Approval period; and
- Listing Agents and Selling Agents' contact information for the properties that the applicant submitted a purchase offer.

If the applicant can document that they have made a minimum of four (4) viable offers at a reasonable price during the 90-day Pre-Approval period, MOHCD may consider a 30-day extension of the DALP Pre-Approval. MOHCD must receive these documents at least five (5) business days before the Pre-Approval and Reservation expires. As described in Section 6-2(F)(1), upon expiration of the 90-day Pre-Approval period, the Reservation will be terminated, and the reserved DALP funds will be unencumbered and made available to the next qualified Borrower on the waitlist.

## **6-4 Application Changes after Submission**

The following describes the guidelines for the application changes after submission.

### **A. General Guidelines**

Changes to an application after submission are only allowed in the following limited circumstances:

- Removal of an applicant in the case of divorce or dissolution of marriage or domestic partnership;
- Addition of an applicant's Spouse or Domestic Partner, a newborn child, or a new Household member in the case of a legal adoption or new legal guardianship (including foster children);
- Update of income qualifications, such as a new job or a job that has ended; and/or
- Correction of technical errors, such as current phone numbers or other non-qualifying information.

The Borrower and the Lender must verify the completeness and accuracy of the application before it is submitted to MOHCD. MOHCD has sole discretion to approve any changes, and, except as mentioned in this Manual, will not permit any changes that will affect the Borrower's ratios, Household size, income, or assets for qualifying purposes.

Incomplete applications, or applications with known false, misleading, or inaccurate information, will be disqualified from consideration. Applicants who have knowingly provided false, misleading, or inaccurate information or withheld information may be prohibited from participating in the program as further explained in Section 8-1 (*Application Integrity*) of this Manual. MOHCD may request additional documents to verify information provided in support of the applicant's Household Income and Liquid Assets eligibility for the DALP program. To verify income and employment status, applicants may be required to complete a State of California Employment Development Department (EDD) Authorization for Release of Records form or the equivalent form from another state as provided by MOHCD.

### **B. DALP Loan Amount Changes**

Once a Reservation has been made, any request for change in loan amount will be subject to availability of funds and MOHCD's approval in its sole discretion. Changes made to qualify for a larger DALP loan amount are prohibited. These include but are not limited to: (i) reducing the gift funds stated on the application; (ii) lowering the first mortgage loan amount that the Borrower was pre-qualified for; (iii) reducing third-party credits and contributions; or (iv) any other changes for the purpose of increasing the DALP loan amount.

To request a change to a reserved DALP loan, the Lender must request in writing any change to a Borrower's Reservation and provide specific reason(s) for the changes along with all necessary documentation to MOHCD. The request will be reviewed, and MOHCD will respond to the Lender by email.

## **C. First Mortgage Loan Changes**

If the first mortgage loan amount, interest rate, or loan term changes before close of escrow, additional documents must be submitted to MOHCD for reassessment.

### **6-5 Transfers**

MOHCD will not allow a transfer of a Reservation from one Eligible Borrower to another. However, MOHCD may allow a loan transfer from one MOHCD-Approved Lender to another after the DALP submission (either before or after a Commitment Letter has been issued), the new Lender will be required to verify that the applicant meets the program requirements by resubmitting a complete DALP Lender Package to MOHCD for review and approval. The transfer will be recognized and approved by MOHCD only after MOHCD receives written notification from the original Lender. The Reservation committed to an Eligible Borrower may not be transferred from one property to another, except as a result of an unsatisfactory home inspection or failure of the seller to proceed with the sale. MOHCD may, in its sole discretion, grant one extension of time as set forth in Section 6-3(H) (*Reservation Extensions*) of this Manual.

### **6-6 Cancellation of Funds and Commitment Expirations**

The Lender and Borrower are respectively responsible for immediately canceling a Reservation if the loan will not close. Any funds allocated to the Borrower will be made available to the next qualified Borrower on the waitlist. If the Borrower cancels a Reservation or the Lender denies the Borrower's first mortgage loan, or the loan will not close by the Commitment Expiration Date, the Lender must contact MOHCD within five (5) business days after such an event.

### **6-7 First-Come-First-Served Applications**

If no applications are received for a lottery during the application period or if all applicants have been considered after a lottery is conducted but funds for Reservations remain available, MOHCD will accept the DALP Pre-Approval applications on a first-come-first-served basis until all DALP funds are exhausted for the applying year.

### **6-8 Closing the Sale**

#### **1. Transaction Fees**

Transaction fees must be the usual, customary, and reasonable fees normally incurred in a residential real estate transaction, and subject to MOHCD's approval in its sole discretion. Seller credits are allowed if they meet the Third-Party Credits and Contributions requirement according to Section 4-1(H).

## 2. Pre-Closing Buyer Meeting

Once MOHCD has issued a Commitment Letter for the purchase of a Primary Residence, all Borrowers are required to attend a pre-closing meeting at MOHCD. MOHCD staff will review the Program Affidavit, this Manual and other applicable documentation, including the Post-Purchase Education requirement described in Section 4-2(K) of this Manual, and answer any questions about the DALP program.

## 3. Title Company

All Transfers must take place through an escrow account with a title company mutually acceptable to seller and buyer. No Transfer will be permitted unless the selected title company complies with escrow instructions provided by MOHCD. Once a buyer and seller have executed documents and before proceeding with closing, the title company must follow escrow instructions and send the following to MOHCD:

- Escrow acceptance of the City's escrow instructions
- Original borrower's signed DALP Note
- Certified copy of signed DALP Deed of Trust
- Certified copy of signed Program Affidavit
- Certified copy of signed Request for Notice of Default
- Estimated combined master settlement statement
- Copy of signed first mortgage note and deed of trust
- Copy of first mortgage lender escrow instructions
- Certified copy of signed grant deed
- Copy of signed note and deed of trust for any MOHCD-approved subordinate loans or liens used to purchase the property
- Proof of hazard insurance naming the City and County of San Francisco as an additional insured
- Escrow deposit receipt of funds to close including a copy of cashier's check or wire transmittal
- Any other applicable documents required by MOHCD

Upon review and approval of the above closing documents, MOHCD will disburse the DALP loan funds directly to the title company closing the sale within five (5) business days unless otherwise instructed in the City's escrow instructions.

## SECTION 7 PROGRAM PROCEDURES FOR LENDERS

MOHCD will act as the administrator of the DALP program. Eligible Borrowers may only apply for down payment assistance loans through MOHCD-Approved Lenders. The Lenders must adhere to MOHCD loan policies, standards of lender form packages, application process, and timelines. Submission of an incomplete DALP Lender Package or submission of inaccurate information in lender forms will delay the processing, review, underwriting, approval, and closing of the sale. If MOHCD often receives incomplete or incorrect applications from a Lender, MOHCD may terminate the Lender's participation in the DALP program.

The program's processing procedures are designed to coincide with the standard loan processing and underwriting procedures that are in place at most mortgage lending institutions. Recognizing that there are procedural variations among the Lenders, the procedures outlined in this Manual may vary somewhat from Lender to Lender. However, the Lender, the City and the Borrower must complete all the steps of processing described in this Manual.

### 7-1 Lender's Participation

All loan originating institutions or mortgage broker companies participating in the DALP and directly working with applicants are required to submit a lender participation agreement signed by an authorized signatory and remit an annual lender fee. Each Lender will pay the non-refundable participating fee; new Lenders will pay an initial fee, and existing Lenders will pay a reduced Lender renewal fee. The fee is for trained Mortgage Loan Originators (MLOs) that have a valid NMLS ID and are in good standing. MLOs who are listed on MOHCD's approved Lender list are also required to sign the lender participation agreement, attend training annually and earn a passing score on the MOHCD homeownership programs quiz. MLOs must abide by the DALP guidelines and perform business in a professional and ethical manner at all times. MLOs may be removed from the participating Lender list, even if their Lender has paid the annual renewal fee. For more information and current Lender fees, please visit [sf.gov/mohcd](https://sf.gov/mohcd).

### 7-2 Lender's Responsibilities

Each Lender's responsibilities include, but are not limited to, the following:

- Lender will ensure that MLOs receive training from MOHCD on a regular basis, and keep current on the products available to first-time, low-middle income homebuyers.
- MLOs will maintain a user account from MOHCD after satisfying lender training to access DAHLIA.
- Lender will work with Eligible Borrowers and housing counseling agencies to apply for all available subsidies and programs for which the Borrower qualifies.
- Lender will perform Lender's standard underwriting process.
- Lender will provide access to and ensure compliance with this Manual for all DALP loans.

- Lender will review and verify the information in each application and supporting, including, but not limited to, an applicant's credit history, employment and income, assets, and debts, to determine whether an applicant qualifies as an Eligible Borrower.
- Lender will adhere to the MOHCD loan processing timelines and conduct business in a professional manner at all times.
- With respect to a first mortgage loan, Lender will perform only such investigations and verifications of potential Eligible Borrowers that it would normally perform for a loan where a borrower was not applying for the DALP.
- Lender will only charge fees customarily charged for mortgage loans that are not made in connection with the DALP.
- Lender acknowledges that submission of incomplete DALP Lender Packages or submission of inaccurate information declared in lender forms will delay the processing, review, underwriting, approval and closing of the purchase.
- Lender further acknowledges that noncompliance with MOHCD's loan policies and MLOs that submit incomplete or inaccurate information on three occasions will be removed from the Lender list. As a courtesy, a written notice may be provided by MOHCD with first and second warnings of any noncompliant submissions before the MLO removal from the Lender list.

In addition to the above, Lender will fulfil other responsibilities fully set forth in the lender participation agreement.

## Section 8      GENERAL GUIDE

This section explains the importance of application integrity and describes MOHCD's procedures for addressing discrepancies and errors and addressing fraud.

### 8-1      Application Integrity

MOHCD relies on the applicants to provide correct information on applications to determine the applicant's eligibility for a DALP loan. This reliance is based on true and factually correct information provided by the Borrower and true statements made by the Borrower. Each Borrower provides information and signs certifications, affirming to MOHCD that the information provided is true and correct. False statements or fraud made in connection with a DALP application may constitute a disqualification of the application, termination of the applicant's participation in the program, and violations of federal, state, and local law, punishable as provided in the law, which may include fines, restitution, detention, or other remedies.

### 8-2      Procedures for Addressing Discrepancies and Errors

To promote the integrity of the program, MOHCD must investigate and research discrepancies and possible errors as follows.

1. If MOHCD suspects that an applicant has inaccurately supplied or misrepresented information that affects the applicant's eligibility, MOHCD must investigate and document the applicant's statements and any conflicting information MOHCD has received. To research questionable information, MOHCD may:
  - a) Confront the applicant with the applicant's information and any conflicting information;
  - b) Obtain additional information from other persons or agencies (verification may be obtained from any source, whether or not named in the application);
  - c) Take other actions to verify the applicant's information or the conflicting information.

During this process, MOHCD may not make a final determination on the application, and/or suspend or terminate the applicant's participation in the program until MOHCD has verified the applicant's information or the conflicting information.

2. After gathering the documentation, MOHCD will notify the applicant in writing of any error or discrepancy and identify what information is believed to be incorrect. If MOHCD disqualifies the application, then MOHCD will specify the inconsistencies identified in the application.
3. Within three (3) business days after the date of MOHCD's notice, the applicant may submit an appeal request. See Section 6-3(E)(3) (*Application Appeals*) for more information. The applicant is encouraged, but is not required, to arrange a meeting with MOHCD and discuss the errors or discrepancies.



4. If the applicant submits new information or documentation contesting the disqualification, MOHCD will, within seven (7) business days, make a final determination. If the applicant's submissions are correct, then MOHCD will rescind the disqualification and resume the application review process. If MOHCD determines that the applicant made an unintentional misstatement or inadvertently withheld information, MOHCD will treat the case as an unintentional program violation and resume the application review process. However, if the applicant repeatedly (more than one occasion) withheld information that affects the applicant's eligibility, whether or not inadvertently, MOHCD may issue a final denial of the application at its sole discretion.
5. If MOHCD determines the application knowingly provided inaccurate or incomplete information, and this can be substantiated through documentation, MOHCD may pursue the incident as fraud following the guidance in Section 8-3 below.

For purposes of applying for a DALP loan, "knowingly" means that an applicant, with respect to any information provided to MOHCD, does any of the following:

- a. Has actual knowledge of the information;
- b. Acts in deliberate ignorance of the truth or falsity of the information; or
- c. Acts in reckless disregard of the truth or falsity of the information.

Proof of specific intent is not required and reliance on the applicant's information by MOHCD is also not required.

## **8-3 Procedures for Addressing Fraud**

### **A. Fraud Documentation**

To document fraud, the applicant's file must contain documentation showing the following:

1. The applicant was made aware of program requirements and prohibitions; and
2. The applicant knowingly misstated or withheld some material information. Fraud can be demonstrated by documentation that:
  - a. The act was done repeatedly (for example, not a one-time or accidental occurrence), or there was prior determination of fraudulent intent or conviction;
  - b. The applicant falsified, forged, or altered documents;
  - c. The applicant omitted material facts that were known to the applicant (such as other household members, additional employment or income, or additional assets); or
  - d. The applicant made admission of non-disclosure of material facts.

## **B. Fraud Outcome**

MOHCD may terminate the applicant's program participation at any time if it finds that the applicant has knowingly provided false, misleading, or inaccurate information or withheld information. In such case, the applicant may be prohibited from participating in the program for a minimum of one (1) year, or a longer period of time in the MOHCD's sole discretion.

If DALP funds have been released prior to discovery of the false information provided in the application, the City has the right to accelerate and terminate the DALP loan and exercise any other rights or remedies available to the City at law or in equity as described in the City loan documents.

## **APPENDICES: OTHER DOWN PAYMENT ASSISTANCE PROGRAMS**

MOHCD administers several down payment assistance programs, in the form of a loan or a grant, to help first-time homebuyers of low, moderate, and middle-income to purchase a Primary Residence in San Francisco. While specific eligibility requirements may vary by program to serve the needs of each program; there are many commonalities across programs. For this reason, the following appendices are used to outline the different requirements by program. Except as described in the appendices, all other provisions specified in this Manual will be applicable. If there is a conflict in the requirements between the appendices and the DALP Manual for a particular program, the appendices will control.

When more than one down payment assistance loan program is used in connection with the purchase, or when down payment assistance loan programs are used in combination with other MOHCD's homebuyer programs, the Borrower must meet the eligibility requirements for all the programs being used in connection with the purchase of a Property. In the case of any conflicting requirements, the more restrictive will apply.

## APPENDIX 1: BMR-DALP PROGRAM

### ***A. Program Description***

The Below Market Rate Downpayment Assistance Loan Program (BMR-DALP) provides the down payment assistance, in the form of a deferred payment loan, to qualified First-Time Homebuyers to purchase a Below Market Rate (BMR) unit as a Primary Residence in San Francisco. BMR units are properties administered by MOHCD, priced to be affordable to program and income eligible first-time homebuyers. The BMR program information can be found at <https://sfmohcd.org/bmr-ownership>. Capitalized items used in this Appendix and not otherwise defined in this Manual are defined in the BMR Manual.

Financial assistance made available under the BMR-DALP Program may only be used to cover the need-based down payment assistance for Eligible Borrowers who otherwise would not be able to purchase a BMR unit. MOHCD will only extend loan funds when it is necessary for a Borrower to qualify for an affordable mortgage, in connection with a BMR unit purchase as further explained in APPENDIX 1-C (*Uses of BMR-DALP Funds*) below.

### ***B. Procedures for Obtaining a BMR-DALP Loan***

BMR-DALP funds are available to all Eligible Borrowers on a first-come, first-served basis. The amount of a BMR-DALP loan granted will be determined by MOHCD on a case-by-case basis and subject to funding availability. The following describes the steps to apply for BMR-DALP funds.

#### Step 1: BMR-DALP Funds Reservation

MOHCD makes a preliminary assessment of eligibility and the BMR-DALP loan amount before issuance of a conditional approval letter to a BMR Buyer. To request BMR-DALP funds, the **Lender** is required to provide:

- Needs Assessment Worksheet (completed by the Lender);
- Documents to support the maximum financing: Form 1003 and 1008, and AUS findings (or underwriting analysis); and
- Any other information required by MOHCD to determine eligibility.

The Needs Assessment Worksheet must be completed by the Lender because the BMR-DALP funds are considered and granted based on the Lender's maximum first mortgage loan amount. If MOHCD determines that the Borrower is eligible, then MOHCD will calculate the estimated amount of funds needed and reserve that amount for the Borrower. The reserved BMR-DALP amount will be stated in the MOHCD's conditional approval letter. It is important to note that a reservation of BMR-DALP funds does not constitute final loan approval nor guarantee funding. The final eligibility and the amount of a BMR-

DALP loan needed will be determined by MOHCD at the stage of the BMR unit purchase final approval as described in Step 2 below.

#### Step 2: BMR-DALP Final Approval

MOHCD will make a final assessment on eligibility and the BMR-DALP loan amount upon receipt of the BMR Lender Package. The Lender is required to provide:

- Completed BMR Lender Closing Checklist
- All the items listed in the BMR Lender Closing Checklist as detailed in the BMR Manual

MOHCD will determine the exact amount of funds needed based on the final figures (such as down payment amount, closing costs, and any prepaid loan payments, taxes, or other property costs). These figures should match Form 1003 and 1008, and the Lender's loan approval. The final BMR-DALP amount will be reflected in the buyer's BMR-DALP Loan Commitment Letter.

### ***C. Uses of BMR-DALP Funds***

#### Eligible Uses:

- BMR-DALP funds can be used to assist with the need-based down payment for a Borrower who would otherwise be unable to purchase a BMR unit.
- BMR-DALP funds can be used to help the Borrower meet the maximum DTI Ratio requirements for first mortgage loan approval.

#### Ineligible Uses:

Except as listed below, MOHCD may identify additional prohibited uses of BMR-DALP funds in its sole discretion to fit the intent of the BMR-DALP program. BMR-DALP funds cannot be used:

- as a way for a Borrower to retain more Liquid Assets as a "cushion" or eliminate Private Mortgage Insurance (PMI) to make the first mortgage loan more appealing to the Borrower and/or the Lender.
- to pay for upgrades, improvements, and repair costs.
- for financing of storage units, additional spaces, and/or second parking spaces.
- to pay down the first mortgage principal, debts, or liens.
- to replenish the Borrower's bank account except for the minimum reserves as required by MOHCD.
- to avoid using gift funds that are available to the Borrower.
- for BMR unit resales, as additional funds where the seller's resale price exceeds the price that is affordable to BMR buyers at the unit designated AMI.

- as additional funds when the Borrower chooses to buy a more expensive BMR unit but there is an available less expensive BMR unit in the same development that is affordable to the Borrower, assuming the two units are of the same bedroom size but at different AMI limits.

Cash disbursed to the Borrower cannot exceed \$250 at close of escrow. Any excess cash must first be applied toward the reduction of BMR-DALP loan amount. To avoid cashback issues at closing, Lenders must re-calculate the Needs Assessment Worksheet where applicable after receiving an estimated closing statement. Adjustments should be made to the BMR-DALP loan amount, if necessary, before releasing loan documents. If in doubt, Lenders will reduce the BMR-DALP loan amount slightly than risk the chance of the Borrower receiving cash back.

#### ***D. Lender's Roles and Responsibilities***

In accordance with the BMR-DALP program guidelines and its purpose, the participating Lenders will assume the following roles and responsibilities:

- The Lender determines the Borrower's financial ability to purchase the desired property.
- The Lender must make every effort to qualify the Borrower for the maximum financing on the first mortgage.
- The Lender submits the Needs Assessment Worksheet and evidence of financing the maximum first mortgage loan amount when requesting BMR-DALP funds as described in Appendix 1-B (*Procedures for Obtaining a BMR-DALP Loan*) above.

#### ***E. Program Eligibility and Compliance***

Other than specified in this Appendix, all other BMR and DALP program requirements will apply. Refer to the BMR Manual for details.

1. Maximum Household Income: Borrower's Household Income cannot exceed 120% of the Area Median Income (AMI).
2. Household Size: The size of a Household must be no greater than the total number of bedrooms in the Property. A minimum of one person per bedroom is required. For example, a single person may purchase a studio or a one-bedroom BMR unit; a two-person household may purchase a two-bedroom BMR unit or a smaller unit if they choose; a three-person household may purchase a three-bedroom BMR unit; and so on.
3. Maximum Loan Amount: The maximum loan available to an Eligible Borrower using the BMR-DALP to purchase a BMR unit is the lessor of 1) Amount of need established by the Needs Assessment Worksheet (based on maximum financing); or 2) Maximum BMR-DALP loan amount, up to twenty percent (20%) of the sales price. Under no circumstances will the City provide funds to a Borrower in excess of what is needed to close the loan.

4. Post-Purchase Liquid Assets: Prior to applying for a BMR-DALP loan, applicants are not subject to any limit on Liquid Assets of the Household. Upon purchase of the BMR unit (close of escrow), the Household/Borrower's combined Liquid Assets must not exceed \$20,000. If MOHCD determines that the Household/Borrower's combined Liquid Assets will exceed \$20,000 at the time of closing, the Household/Borrower will need to deposit an additional amount of cash into escrow toward purchase of the BMR unit. This additional deposit will reduce the Household/Borrower's combined Liquid Assets to \$20,000 at close of escrow, resulting in a reduction in the BMR DALP loan amount. It is important to note that the BMR-DALP funds are not intended to fund the Borrower's reserves to the maximum post-purchase amount (\$20,000) allowed in Liquid Assets. Typically, MOHCD will only grant the funds sufficient for the Borrower to meet the minimum reserves requirements as outlined in Section 4-2(G) (*Post-Purchase Reserves*) of this Manual.
5. Inspection Reports: The General Home Inspection Report and Pest Control Inspection Report requirements may be waived.
6. Layered Financing: The BMR-DALP loan may be layered with other subordinate financing, such as the Teacher Next Door (TND) program, or non-MOHCD subordinate financing if permitted by MOHCD, as long as the Borrower meets the eligibility requirements for all the programs used in connection with the purchase of the BMR unit. In the case of any conflicting requirements, the more restrictive will apply.
7. Lien Position: Unless otherwise required by MOHCD, the BMR-DALP mortgage will be in a junior lien position behind the MOHCD approved first mortgage and BMR mortgage.
8. Loan Term: The BMR DALP loan is due upon the earlier of: (a) thirty (30) years; or (b) upon sale, transfer of the property, or non-compliance with BMR-DALP rules or contractual obligations, including, but not limited to, unauthorized lease of the property or unauthorized title transfer of the Property. If requested by Borrower, MOHCD may approve, in its sole discretion, an extension at the end of 30-year loan term.
9. Repayment: Unless a default occurs, repayment of the BMR-DALP loan will be deferred for thirty (30) years from the date of the initial purchase. On the maturity date of loan or closing date of resale of the BMR unit, the loan will be due and payable. The payoff amount due from Borrower will be (i) the principal amount of the loan plus (ii) a proportional share of the appreciation of the Property. The Share of Appreciation is defined as the increase in the affordable resale value (as determined by MOHCD or its successor) of the BMR unit, if any, from the date of Borrower's purchase of the BMR unit through the Maturity Date. The Share of Appreciation has been determined by dividing the Principal Amount by the affordable resale value of the BMR unit. the BMR restrictions will remain applicable to the unit after the BMR-DALP loan is paid off.

10. Refinance/Subordination: Borrowers who have BMR-DALP loans from MOHCD may not receive any cash from refinancing the BMR unit until their BMR-DALP loan is repaid in full. Repayment of the BMR-DALP loan may be required on refinance, if Borrower meets one of the following criteria:

- a. Borrower has Liquid Assets equal to the total balance (principal and interest and share of appreciation) of the BMR-DALP loan plus three (3) months of housing payments (principal, interest, property taxes, hazard insurance, and homeowner's association dues) in reserves; or
- b. Borrower's new monthly mortgage payment will be increased by more than fifteen percent (15%); or
- c. Borrower's new Front-End Ratio (housing expense-to-income ratio) is lower than twenty-eight percent (28%); or
- d. The term of the new first mortgage is shorter than the period of time remaining on the BMR-DALP loan. The BMR-DALP loan must be paid off concurrently or before the first mortgage is paid off.

BMR-DALP Borrowers are required to execute a form to certify their income and available Liquid Assets to demonstrate their continued need for the funds. MOHCD, at its sole discretion, may require the Borrower's full income and asset documentation for verification purposes. Please refer to the MOHCD Subordination Policy at <https://www.sf.gov/refinancing-and-subordination> for additional information.

11. Loan Prepayment: BMR owners may prepay their first mortgage loans but owners who also have a BMR-DALP loan from the City will be required to repay the BMR-DALP loan at the same time the first mortgage loan is prepaid.



## APPENDIX 2: FIRST RESPONDERS DALP PROGRAM

### ***A. Program Description***

The First Responders Downpayment Assistance Loan Program (FRDALP) provides down payment assistance, in the form of a deferred payment loan, to First Responders (as defined in this Manual), to purchase a market-rate Primary Residence in San Francisco.

### ***B. Procedures for Obtaining a FRDALP Loan***

To obtain an FRDALP loan, a Borrower must first apply for Pre-Approval of a DALP loan and request a reservation of funds through a lottery process. See Section 6 of this Manual for details.

### ***C. Program Eligibility and Compliance***

Other than as specified in this Appendix, all other DALP program requirements apply. Refer to this Manual for a detailed description of the DALP program requirements and procedures.

1. Employment Status: Borrower must be employed as a full-time, or part-time First Responder (as defined in this Manual) from which at least thirty percent (30%) of the applicant/First Responder's gross income is derived. A copy of the Borrower's paystub and/or verification of employment dated within forty-five (45) days must be submitted in the DALP Pre-Approval application as described in Section 6-3(A) (*Reservation Request*) of this Manual.
2. First Time Homebuyer Requirements: No member of the applicant Household may have owned any interest in a residential unit in San Francisco during the three-year period preceding the date of the DALP Pre-Approval application for a FRDALP loan.
3. Household Size Compatibility: There is no requirement for the size of a Household to be compatible with the size of the Property being purchased under the FRDALP program.
4. First Responder Overtime: First Responder Borrower's overtime may, in MOHCD's sole discretion, be excluded from the Household Income calculation for qualifying purposes. All other sources of income and income for other Household members will be calculated in accordance with the guidelines described in Section 2-3 (*Income Requirements*) of this Manual.
5. Layered Financing: The FRDALP loan may be layered with other subordinate financing, such as the Teacher Next Door (TND) program, or non-MOHCD subordinate financing if permitted by MOHCD, as long as the Borrower meets the eligibility requirements for all the programs used in connection with the purchase of a Property. In the case of any conflicting requirements, the more restrictive will apply.

## APPENDIX 3: EDUCATORS-DALP PROGRAM

### ***A. Program Description***

The Educators Downpayment Assistance Loan Program (Educators-DALP) provides down payment assistance, in the form of a deferred payment loans, to Educators, as defined in this Manual, to purchase a market-rate Primary Residence in San Francisco.

### ***B. Applying for an Educators-DALP Loan***

To obtain an Educators-DALP loan, a Borrower must first apply for Pre-Approval of a DALP loan and request a reservation of funds through a lottery process. See Section 6 of this Manual for details.

### ***C. Program Eligibility and Compliance***

Other than as specified in this Appendix, all other DALP program requirements apply. Refer to this Manual for a detailed description of the DALP program requirements and procedures.

1. Employment Status: Borrower must be employed as a full-time, or part-time Educator from which at least thirty percent (30%) of the applicant/Educator's gross income is derived. A copy of the Borrower's paystub and/or verification of employment dated within forty-five (45) days must be submitted in the DALP Pre-Approval application as described in Section 6-3(A) (*Reservation Request*) of this Manual.
2. First-Time Homebuyer Requirements: No member of the applicant Household may have owned any interest in a residential unit in San Francisco during the three-year period preceding the date of the DALP Pre-Approval application for an Educators-DALP loan.
3. Household Size Compatibility: There is no requirement for the size of a Household to be compatible with the size of the Property being purchased under the Educators-DALP program.
4. Layered Financing: The Educators-DALP loan may be layered with other subordinate financing, such as the Teacher Next Door (TND) program, or non-MOHCD subordinate financing if permitted by MOHCD, as long as the Borrower meets the eligibility requirements for all the programs used in connection with the purchase of a Property. In the case of any conflicting requirements, the more restrictive will apply.

## APPENDIX 4: TEACHER NEXT DOOR PROGRAM

### A. Program Description

The Teacher Next Door (TND) program provides down payment assistance, in the form of a forgivable loan, to Educators as defined in this Manual, to purchase a BMR or market-rate Primary Residence in San Francisco.

### B. Procedures for Obtaining a TND Loan

TND funds are available to all Eligible Borrowers on a first-come, first-served basis, and subject to funding availability. The following describes the procedures to apply for a TND loan.

1. TND Loan Layered with Other MOHCD Homebuyer Programs:

No separate application is required to apply for the TND funds when layered with other MOHCD homebuyer programs (such as BMR or DALP). The TND funds will be reserved when the applicant is determined to be income qualified after MOHCD's review of the applicant's full application. The reserved TND amount will be reflected in the MOHCD's conditional approval letter (for a BMR unit) or Pre-Approval letter (for a market-rate unit). It is important to note that a reservation of TND funds does not constitute final loan approval nor a guarantee of funding. The final eligibility will be determined by MOHCD upon receipt of the BMR or DALP Lender Package.

2. Stand-alone TND Loan:

When an applicant uses a stand-alone TND loan (not combined with any other MOHCD homebuyer programs) for the purchase of the Property, the Lender is required to provide:

- DALP Full Application (See Section 6-3(D) (*Submission of a Full Application*)); and
- All the items listed in the DALP Lender Package (See Section 6-3(F)(2) (*DALP Lender Package Submittal Period*)) except the following:
  - Application Fee (not required)
  - General Home Inspection Report (not required)
  - Pest Inspection Report (not required)

Within fifteen (15) business days after receipt of a complete submission, MOHCD will approve or disapprove the loan. If MOHCD approves the loan, then MOHCD will issue a Commitment Letter that expires after thirty (30) days. See Section 6-8 of this Manual for procedures about closing the sale.

### C. Program Eligibility and Compliance

Other than as specified in this Appendix, all other DALP program requirements will apply. Refer to this Manual for a detailed description of the DALP program requirements and procedures.

1. Employment Status: Borrower must be employed as a full-time, or part-time Educator from which at least thirty percent (30%) of the applicant/Educator's gross income is derived.
2. First-Time Homebuyer Requirements: No member of the applicant Household may have owned any interest in a residential unit in San Francisco during the three-year period preceding the date of the application for a TND loan.
3. Maximum Loan Amount: The maximum TND loan amount is \$40,000 on a market-rate unit, and \$20,000 on a BMR unit. Each household is limited to one TND loan, regardless of the number of Educators in that household.
4. Household Size Compatibility: There is no requirement for the size of a household to be compatible with the size of the unit being purchased under the TND program.
5. Layered Financing: The TND loan may be layered with other MOHCD's homebuyer programs (such as BMR or DALP), as long as the Borrower meets the eligibility requirements for all the programs used in connection with the purchase of a Property. In the case of any conflicting requirements, the more restrictive will apply.
6. Inspection Reports: The General Home Inspection Report and Pest Control Inspection Report requirements may be waived.
7. TND Loan Term and Repayment: The term of the TND is ten (10) years. Borrower must remain an Educator during the entire loan term. The TND loan bears no interest, nor shared appreciation. The loan is due upon sale, rental, or title transfer of the Property, or upon Borrower's unemployment with the SFUSD at any time during the entire loan term. If any defaults occur within five (5) years of the date the loan is issued, then the loan must be paid off in full.

If at any time during the 10-year period, Borrower is an Educator but can document that termination of employment from the SFUSD was due to: a) long-term disability, b) elimination of the borrower's position, or c) a reduction-in-workforce, and also document continuity of occupancy, Borrower may begin making monthly payments of principal balance per the charts below. In this case, the remaining principal balance will be amortized over a maximum 5-year period until the balance of the loan is paid in full. The charts below illustrate how monthly payments will be structured for loans of \$20,000 and \$40,000, respectively.

TND Loan amount \$20,000 (on a BMR unit)

Year 1	\$20,000	\$333.33 / mo.	Year 6	\$16,000	\$266.66 / mo.
Year 2	\$20,000	\$333.33 / mo.	Year 7	\$12,000	\$200.00 / mo.
Year 3	\$20,000	\$333.33 / mo.	Year 8	\$ 8,000	\$133.33 / mo.
Year 4	\$20,000	\$333.33 / mo.	Year 9	\$ 4,000	\$66.66 / mo.

Year 5	\$20,000	\$333.33 / mo.	Year 10	\$ 0	\$0 / mo.
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TND Loan amount \$40,000 (on a market rate unit)

Year 1	\$40,000	\$666.67 / mo.	Year 6	\$32,000	\$533.33 / mo.
Year 2	\$40,000	\$666.67 / mo.	Year 7	\$24,000	\$400.00 / mo.
Year 3	\$40,000	\$666.67 / mo.	Year 8	\$16,000	\$266.67 / mo.
Year 4	\$40,000	\$666.67 / mo.	Year 9	\$ 8,000	\$133.33 / mo.
Year 5	\$40,000	\$666.67 / mo.	Year 10	\$ 0	\$0 / mo.

If the Property is sold, rented or title transferred, or if the Borrower is no longer an Educator for reasons other than listed above, the loan is due back to the City in a lump sum amount. The following charts illustrate lump sum repayments of TND loans in the amounts of \$20,000 and \$40,000:

TND Loan amount \$20,000

Year 1	\$20,000	Year 6	\$16,000
Year 2	\$20,000	Year 7	\$12,000
Year 3	\$20,000	Year 8	\$ 8,000
Year 4	\$20,000	Year 9	\$ 4,000
Year 5	\$20,000	Year 10	\$ 0

TND Loan amount \$40,000

Year 1	\$40,000	Year 6	\$32,000
Year 2	\$40,000	Year 7	\$24,000
Year 3	\$40,000	Year 8	\$16,000
Year 4	\$40,000	Year 9	\$ 8,000
Year 5	\$40,000	Year 10	\$ 0

11. TND Loan Forgiveness: If the Borrower remains an Educator, the Property is not sold, rented or otherwise transferred, and the Borrower complies with all of the terms and conditions of the TND program, then after the 5th year, the loan is forgiven at a rate of twenty percent (20%) each year on the anniversary date of loan closing, and at the end of the 10th year, the loan is forgiven in its entirety.

## **APPENDIX 5: CITY SECOND LOAN PROGRAM**

### ***A. Program Description***

The City Second Loan Program (CSLP) provides down payment assistance, in the form of a deferred payment loan, to a low- to moderate-income first-time homebuyers, to purchase a specified market-rate residential property in the program (the “City Second Property”) as Primary Residence in San Francisco. The City Second Properties are privately owned townhouses and condominiums in specified developments that the City monitors the resales and assists the prospective qualified buyer financially. The purpose of the program is to ensure that if the owner sells the City Second Property, then another low- to moderate-income first-time homebuyer can purchase it.

### ***B. City’s Right of First Refusal***

The City maintains a right of first refusal on each City Second Property as set forth in the Grant of Right of First Refusal document (the “GRFR”) executed by the owner granting the City the right to purchase the City Second Property for the price offered by a third-party buyer. According to the terms of the GRFR, if the owner decides to sell the City Second Property, the City has the option to purchase it or assign its right to purchase the City Second Property to a qualified buyer. The GRFR includes the time period within which the City may exercise its right to purchase the City Second Property for the same price offered by the third party, and on the terms provided in the GRFR and otherwise reasonably acceptable to City, notwithstanding any other terms set forth in the bona fide third-party offer. The GRFR will remain in full force and effect until the date on which the City has exercised or waived its right to purchase the City Second Property, except as specifically provided in the GRFR and this Appendix, even if a loan from the City has already been repaid or the deed of trust securing that loan has been reconveyed.

### ***C. Procedures for Obtaining a CSLP Loan***

Unless otherwise determined by MOHCD and stated in the City Second Property listings, CSLP funds are available to all Eligible Borrowers on a first-come, first-served basis, and subject to funding availability. To apply, applicants must submit a DALP Full Application (See Section 6-3(D) (*Submission of a Full Application*) for details) before the application deadline according to the instructions on the unit listing. The most current version of the DALP Full Application can be downloaded on the unit listing or at <https://www.sf.gov/information/mohcd-housing-program-forms-and-documents>.

### ***D. Resale Procedures***

Unless otherwise authorized in the GRFR or permitted in writing by the City, the following are the resale procedures for selling a City Second Property.

1. When the owner accepts from a third-party a bona fide offer to purchase the City Second Property, the owner will notify the City in writing and send a copy of the offer to the City within the time period specified in the GRFR. The bona fide third-party offer must be in the form of a Purchase Agreement executed by the third-party buyer and with terms acceptable to the owner. For the avoidance of any doubt, the owner shall not counter-sign such Purchase Agreement unless and until the City elects in writing to not purchase the Property under the GRFR. To properly disclose the City's rights to purchase the property to the third-party buyer, the Purchase Agreement must include the following:
  - The property is subject to the City Second Loan Program's Grant of Right of First Refusal (GRFR);
  - The period of time under the GRFR that the City has to exercise its right to purchase ("GRFR Period"), starting from when the City approves the Purchase Agreement;
  - The closing period that allows sufficient time to close the sale after the City or its assignee exercises its right to purchase.
2. Within five (5) business days after receiving the Purchase Agreement and supporting documents, the City will provide the owner with a written notice stating the City's approval of the Purchase Agreement and the commencement of the GRFR Period.
3. The City Second Property must be marketed during the entire application period as determined by MOHCD in accordance with the GRFR. MOHCD will announce the available City Second Property on its email housing alert system to all potential buyers who are on the general homeownership interest list and, when available, on the DAHLIA San Francisco Housing Portal. Among other requirements, the owner's real estate agent or broker must:
  - Hold at least one (1) open house on one weekend day, lasting at least two hours.
  - Advertise the City Second Property on the Multiple Listing Service (MLS) to promote public awareness. The MLS listing must disclose the City holds the GRFR and provide the CSLP information for interested buyers.
  - Complete the MOHCD's posting template with necessary information including an MLS link to the property.
  - Comply with all applicable federal, state, and local laws relating to Fair Housing.

The buyers who are interested in participating in the CSLP to purchase the City Second Property must submit a DALP Full Application to MOHCD before the application deadline. See Section APPENDIX 5-C above for procedures of obtaining a CSLP loan.

4. Before expiration of the GRFR Period, the City will provide the owner with a written notice stating the City's election to: (i) either purchase the property (or assign the right to

purchase to a qualified buyer), or (ii) allow the third party to purchase the City Second Property.

5. If the City elects to purchase the City Second Property or assign the right to purchase to a qualified buyer, the City or its assigned buyer will enter into a sales contract with the seller matching the purchase price and credits/concessions (if any) within fifteen (15) days after the City's notice. The sales contract must allow at least a 60-day closing period with at least a 45-day financing contingency. This contract must allow these periods to be extended to accommodate the buyer and the seller. In consideration of the City assigning its right to purchase the City Second Property to a qualified buyer, the buyer will grant the City a right of first refusal to purchase the property, as fully set forth in the "Grant of Right of First Refusal" or "Declaration of Restrictions and Option to Purchase Agreement," which will be recorded at closing when the buyer acquires the City Second Property.
6. If the City does not elect to purchase the City Second Property or assign its right to a qualified buyer or fails to send a timely election notice, the City's rights under the GRFR will terminate and the owner may sell the City Second Property to the third party. To remove the CSLP restrictions from the property, the City will deliver the "Release of Grant of Right of First Refusal" to the title company for recording. However, if the sale of the property is for less than the purchase price set forth in the bona fide third-party offer provided to City or has different credits/concessions, or if the bona fide third-party offer provided to City is canceled, then the GRFR will be automatically revived and in full force and effect even if the City did not exercise the right to purchase. If the GRFR is revived, then, in addition to City's rights at law or in equity, City will have the right to accept or reject the bona fide third party offer for the sale that is pending under the terms of GRFR and the City's standard procedure, or require the third party to grant to City a right of first refusal to purchase the property using the form of GRFR acceptable to City.

### ***E. Program Eligibility and Compliance***

Other than specified in this Appendix, all other DALP program requirements apply to the CSLP. Refer to this Manual for a detailed description of the DALP program requirements and procedures.

1. Maximum Household Income: Borrower's Household Income cannot exceed 120% of the area median income published annually by HUD ("HUD AMI"). For purposes of marketing and determining income eligibility, MOHCD will convert the HUD AMI to the equivalent AMI published by MOHCD and provide such information on the CSLP listing.
2. City Second Properties: City Second Properties are specified properties in certain developments in which the City provided subsidies to make the home affordable which may have included: a) the acquisition of the land on which the building is located, b) funds to reduce the cost of construction, and/or c) financial assistance to homeowners to fill the gap between what low- to



moderate-income buyers can borrow and the property's fair market value. A list of current available City Second Properties can be found on DAHLIA or the MOHCD's website at <https://sfmohcd.org/current-listings-city-second-program>.

3. Purchase Price: For purposes of the CSLP, the purchase price includes, but not limited to, credits (including incentives and concessions), third party funding or credits, transfers of personal property, trade or otherwise as the purchase price set forth in the bona fide offer provided to the City.
4. Purchase Price Change: If the sale of the property is for less than the purchase price set forth in the bona fide third-party offer provided to City, then the GRFR will be automatically revived and in full force and effect notwithstanding the City's exercise. See APPENDIX 5-D-6 above for more information.
5. Inability to find a Qualified Buyer: In the case of the City Second Properties that are unable to attract a qualified buyer within the GRFR Period and will not be purchased by MOHCD, MOHCD may consider granting the following exceptions on a one-time basis:
  - a one-time waiver of the First-Time Homebuyer rule for the CSLP applicant's Household. See Section 2-1 (*First-Time Homebuyer Requirement*) of this Manual;
  - a one-time waiver of the Household size rule for the CSLP applicant's Household. See Section 3-4 (*Property Size, Household Size and Bedroom Requirements*) of this Manual; and
  - a one-time waiver of any other eligibility requirements that are deemed necessary and reasonable to MOHCD.
6. New Grant of Right of First Refusal: If the City assigns its rights to purchase the City Second Property to a qualified buyer, the qualified buyer will execute a new "Grant of Right of First Refusal" or "Declaration of Restrictions and Option to Purchase Agreement," in addition to the security documents listed in Section 4-2(J) of this Manual.
7. Release of Right of First Refusal: If the City does not elect to purchase the City Second Property or assign its right to a qualified buyer during the GRFR Period, then the City will deposit a draft Release of the Grant of Right of First Refusal ("Release") into the closing escrow with the title company. The City will deposit the fully executed Release within five (5) business days after seller provides the City with a copy of the estimated master settlement statement to confirm the final purchase price of the property.
8. Close of Escrow: Escrow cannot schedule closing before the GRFR Period ends.
9. Permanent Resale Restrictions: There are certain properties that are subject to a City Right of First Refusal that runs with the land and is enforceable against subsequent owners of the property regardless of any previous owner's contractual obligation. The owner should refer to

the restriction documents recorded on the title of the property for full details. For resale of these properties, all subsequent owners of the property will execute a new “Grant of Right of First Refusal” when they acquire the property regardless of whether or not the City exercises its right to purchase.

## ***F. Participation by Nonprofit Organizations (Pilot Program)***

Under a pilot program and subject to the availability of funding, nonprofit housing organizations may participate in the City Second Loan Program (CSLP) by selling Single-Unit Residences to an eligible Borrower in accordance with this Manual and CSLP guidelines. Nonprofit housing organizations shall obtain the prior written approval of MOHCD under CSLP based on the following:

1. Eligible Nonprofit Organizations: Nonprofit housing organizations shall be California public benefit corporations and tax-exempt under Internal Revenue Code Section 501(c)(3) as a public charity and equivalent charitable tax exemption under California law (“**Nonprofits**”). Nonprofits shall be in good standing with the California Secretary of State, California Franchise Tax Board, and California Attorney General.
2. Eligible Properties: The property shall be a Single-Unit Residence located in the City and County of San Francisco, and the Nonprofit shall be the sole, fee owner of such property. The property shall be free of liens, except permitted by MOHCD in its sole discretion, and MOHCD may require inspection reports in accordance with Section 3-6 (*Inspection Reports Requirements*) of this Manual. The Nonprofit shall have purchased the property from an owner who occupied the property, and the Nonprofit shall not evict and/or displace any tenant (or require the previous owner to evict and/or displace any tenant) for the purpose of selling the property to a Borrower. If the owner of the property had previous tenants, MOHCD may require a Nonprofit to provide an affidavit from a tenant that such tenant vacated the property voluntarily and without duress. CSLP funds shall not be used for construction financing or development purposes. MOHCD will not make any advanced commitment of funds prior to selection of a Borrower, as described below.
3. First Mortgage Seller Carryback Loan: The Nonprofit shall provide to the Borrower a seller-carryback loan on commercially reasonable terms acceptable to MOHCD. The Nonprofit’s loan must be affordable to the Borrower based on the Borrower’s income as determined under this Manual. The Nonprofit’s loan may be secured by a deed of trust recorded against the property and may be senior to MOHCD’s CSLP deed of trust, provided that the Nonprofit enters into an intercreditor agreement in a form provided by MOHCD (see below).
4. Right of First Refusal: The Nonprofit may require the Borrower to execute and record a right of first refusal or option to repurchase agreement for the benefit of the Nonprofit. MOHCD’s right of first refusal or option to repurchase under CSLP may be subordinate to the Nonprofit’s right of first refusal or option to repurchase agreement.
5. Intercreditor Agreement: The Nonprofit shall execute an Intercreditor Agreement provided by MOHCD. MOHCD may reject any requested changes to the Intercreditor Agreement. The Nonprofit shall record a Memorandum of Intercreditor Agreement against the property. The

Intercreditor Agreement shall establish the respective program requirements, lien positions, Borrower responsibilities, and rights and obligations of MOHCD and the Nonprofit.

6. Marketing and Lottery Procedures: The Nonprofit must comply with the Marketing, Housing Preferences and Lottery Procedures Manual for marketing, conducting the lottery, applying the lottery preferences and identifying eligible Borrowers for the sale of the property as further detailed in the Intercreditor Agreement.
7. Income Eligibility: Borrowers must meet the Maximum Household Income limits established under the CSLP. If a Borrower will receive financing from multiple funding sources with differing income restrictions, the most restrictive income limits shall apply to ensure compliance with all applicable funding requirements. If any external funding source uses an income table that differs from MOHCD's, MOHCD shall convert the income level to the equivalent Area Median Income and provide such information in the property listing for the purposes of marketing and determining income eligibility.
8. Subsequent CSLP Loan: If the Nonprofit elects to have subsequent buyers obtain a CSLP loan, the Nonprofit must notify MOHCD within ten (10) days after acquiring the title to the Property.

## APPENDIX 6: DK-DALP PROGRAM

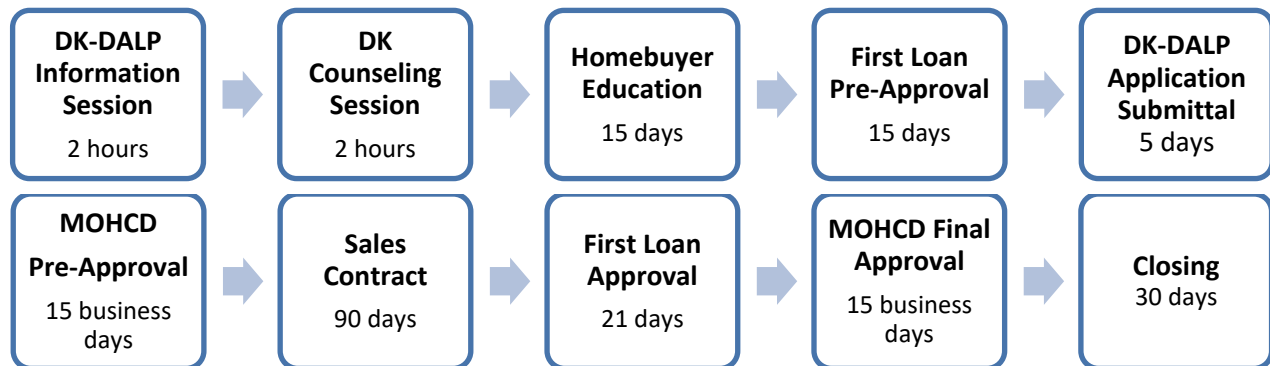
### A. Program Description

The DK Downpayment Assistance Loan Program (DK-DALP) seeks to widen the path to homeownership for historically marginalized and under-resourced communities by providing down payment assistance, in the form of a deferred loan, to qualified First-Time Homebuyers to purchase a market-rate Primary Residence in San Francisco.

### B. Procedures for Obtaining a DK-DALP Loan

#### 1. DK-DALP Application Process and Timeline

Below is the process and an estimated timeline for purchasing a Property with DK-DALP funds. The entire process may take up to eight (8) months from the day an applicant begins the application process. All times listed are approximate; the processing times can vary depending on many reasons that include homebuying readiness, homebuyer education completion, first mortgage loan approval, additional information required to determine an applicant's eligibility, and the real estate market.



**DK-DALP Information Session:** The first step to applying is to attend a 2-hour information session provided by MOHCD. The information session explains the purpose of the DK-DALP, eligibility requirements, and the steps to become a homeowner in San Francisco's high-cost market. Applicant's attendance at a DK-DALP Information Session will be verified by MOHCD during application review.

**DK Counseling Session:** After attending the DK-DALP Information Session, interested applicants will be invited to a 2-hour one-on-one counseling session through a MOHCD-designated Homebuyer Education Provider to determine an applicant's home-buying readiness. If the applicant is determined to be not ready to buy within the next three (3) months, their housing counselor will develop a homebuying action plan that includes recommendations to help the applicant achieve their homeownership goals. Applicant's attendance at a DK Counseling Session will be verified by MOHCD during application review.

**Homebuyer Education:** Upon completion of the DK Counseling Session, applicants will be instructed by their housing counselor to complete the ten (10) hours of First-Time Homebuyer Education described in Section 2-6 (*First-Time Homebuyer Education*) of this Manual. Applicants who have already completed the Homebuyer Education program and received a valid Verification when applying for other MOHCD homebuyer programs may skip this Homebuyer Education step if such Verification was issued within twelve (12) months from the date of the application.

**First Loan Pre-Approval:** Applicants are required to obtain a pre-approval for a first mortgage loan from a MOHCD-Approved Lender. Please refer to Section 2-7 (*Mortgage Pre-Approval*) of this Manual for details. Applicants who already have a valid first mortgage loan pre-approval letter when applying for other MOHCD homebuyer programs may skip this First Loan Pre-Approval step if such pre-approval letter was issued within one hundred twenty (120) days of the application.

**DK-DALP Application Submittal:** Applications will be open on a first-come, first-served basis on a date provided by MOHCD, during which time applicants must submit to MOHCD a fully completed application with the following documentation:

- DK-DALP Application;
- verification of Homebuyer Education form dated within twelve (12) months of the application;
- mortgage loan pre-approval letter within one hundred twenty (120) days of the application;
- last three (3) years of Federal income tax returns with all schedules (a filing extension will not be accepted);
- last three (3) years W-2 and/or 1099 forms;
- current three (3) consecutive pay stubs, or if self-employed, a year-to-date P&L Statement;
- current three (3) consecutive months bank or assets statements from all bank or Liquid Asset accounts;
- California Driver's License, State or City and County of San Francisco City ID, or other Government issued photo ID;
- current lease agreement with all pages with proof of three (3) most recent rent payments (If rent-free, provide a signed letter from the landlord or owner describing housing arrangement);
- completed gift letter and evidence of donor availability of funds (if applicable);
- Selection Priority Checklist and verification documents (if applicable); and
- any other documents listed on the application.

Only one (1) application is permitted per Household. Any duplicate applications and applications where any Household member appears on more than one application will automatically result in the City's disqualification of all applications.

Incomplete applications, or applications with known false, misleading, or inaccurate information, will be disqualified from consideration. Applicants who have knowingly provided false, misleading, or inaccurate information or withheld information may be prohibited from participating in the program as

further explained in Section 8-1 (*Application Integrity*) of this Manual. MOHCD may request additional documents to verify information provided in support of the applicant's Household Income and Liquid Assets eligibility for the DK-DALP.

**MOHCD Pre-Approval:** MOHCD will determine whether or not an applicant is income-qualified within fifteen (15) business days after receipt of a complete application. If an applicant is income qualified, MOHCD will issue a Pre-Approval letter. See more information in Section 6-3(E)(1) (*MOHCD Pre-Approval*) of this Manual.

**Sales Contract:** Refer to Section 6-1 (*DALP Application Process*) of this Manual.

**First Loan Approval:** Refer to Section 6-1 (*DALP Application Process*) of this Manual.

**MOHCD Final Approval:** Refer to Section 6-1 (*DALP Application Process*) of this Manual.

**Closing:** Refer to Section 6-1 (*DALP Application Process*) of this Manual.

## 2. Application Selection Priority

DK-DALP Funds are distributed on a first-come, first-served basis on a daily basis with selection priority given to applicants who are eligible for any of the selection priorities described in APPENDIX 6-B-3 below. For the applications that are received on the same date, applicants with an eligible and verified selection priority will be considered first.

## 3. Selection Priorities

### a) *Residents holding Certificate of Preference (COP)*

Eligibility: To qualify for this priority, at least one member of the Household must have been displaced, or who are descendants of Households that were displaced in Western Addition or Hunters Point by the San Francisco Redevelopment Agency. An individual holding a 'Residential Certificates of Preference' as defined in the Certificate of Preference (COP) Program Manual is eligible for this priority.

Documentation: No documentation is required at the time of application, but the applicant's COP status will be verified by MOHCD.

### b) *Tenants currently enrolled in the SFHA Section 8 Voucher Program*

Eligibility: To qualify for this priority, at least one member of the Household must be currently enrolled in the Section 8 Housing Choice Voucher Program of the San Francisco Housing Authority (SFHA).

Documentation: Applicants must include a letter from SFHA verifying their voucher status.

c) *HOPE SF Residents*

Eligibility: To qualify for this priority, at least one member of the Household must be a current or former public housing resident of the Alice Griffith, Hunters View, Potrero Terrace and Annex, or Sunnydale-Velasco sites as further described at the HOPE SF's website at <https://www.hope-sf.org>.

Documentation: Acceptable documentation to verify residence includes, but not limited to, anyone (1) of the following:

- Letter from SFHA verifying residency
- SFHA Lease
- SF City ID
- Telephone bill (landline only)
- Cable or internet bill
- Paystub (listing home address)
- Public benefits records (e.g., Social Security Income/State Supplementary Payment (SSI/SSP), MediCal, General Assistance (GA), Unemployment Insurance, CalFresh)
- School records

All documentation must list the applicant's name and a home address within Alice Griffith, Hunters View, Potrero, or Sunnydale public housing sites. MOHCD reserves the right to request additional information and documentation.

### **C. Program Eligibility and Compliance**

Other than specified in this Appendix, all other DALP program requirements will apply. Refer to this Manual for a detailed description of the DALP program requirements and procedures.

1. Owner's Death: When one Borrower dies, any surviving co-Borrowers previously approved by MOHCD may continue to hold title. Surviving Borrowers must notify MOHCD within sixty (60) days and provide all requested documentation before removing a deceased Borrower from title. When all Borrowers have died, the Property may be transferred by inheritance, will, or any other function of law to a child, Spouse or Domestic Partner not on title provided that the child or Spouse otherwise qualifies for the Program. Within one (1) year of the death of the Borrower, the proposed transferee must submit a full standard application with financial and other qualifying information (including loan pre-approval and completion of the First-Time Homebuyer Education requirement) to verify eligibility. If qualified, within ninety (90) days, the child, Spouse or Domestic Partner shall execute a Note, City Deed of Trust, and any other City documents related to the Property and assume the loan. If not qualified or not interested in retaining the Property, within thirty (30) days following the disqualification or within twelve (12)

months of the death of the Borrower, the DK-DALP loan must be paid in full.

2. Assumable/Transferrable: Except as stated in APPENDIX 6-C-1 above, the DK-DALP loans are not assumable or transferable. The loans must be paid in full upon sale or title transfer of the Property.

#### ***D. Wealth Building Assistance***

The Wealth Building Assistance (“WBA”) seeks to promote wealth creation for San Francisco’s under-resourced community by increasing equitable access to homeownership. The WBA provides financial assistance, in the form of forgivable loans, to qualified First-Time Homebuyers to purchase a market-rate Primary Residence under the DK-DALP Program.

Other than as specified in this APPENDIX 6-D, all other DK-DALP program requirements will apply.

1. Loan Amount: The maximum WBA amount available to an Eligible Borrower using a DK-DALP loan to purchase a market-rate Primary Residence is \$30,000. Each household is limited to one WBA.
2. Eligible Recipient: The WBA is only available to Eligible Borrowers under the DK-DALP program.
3. No Cash Back: Borrower shall not receive any funds back at close of escrow. Any excess or unused funds must be returned to MOHCD.
4. Eligible Uses: WBA can be used for down payment, closing costs, and prepaid items. See Section 4-1(G) (*Interest Rate and Closing Costs*) of this Manual for more information about customary and reasonable costs necessary to close the mortgage loan.
5. WBA Term and Repayment: The term of the WBA is three (3) years and will be forgiven as long as the Borrower remains in compliance. If the Property is sold, or transferred, or if Borrower is non-compliant with DK-DALP rules within 3 years, the loan is due back to the City in a lump sum amount.



## APPENDIX 7: LEGACY IN TOWN PROGRAM (Phrase 2)

### A. Program Description

In collaboration with the Office of Community Investment and Infrastructure (OCII), the Legacy In Town (LIT) Program seeks to promote equitable access to homeownership for low- and moderate-income households who hold a Certificate of Preference (COP) by providing down payment assistance, in the form of a forgivable loan, to purchase a BMR or market-rate Primary Residence in San Francisco.

### B. Definitions

Unless provided in this Appendix, all initially capitalized terms are as defined in the DALP Manual.

**COP Holders:** means low- or moderate-income individuals that have been displaced due to former San Francisco Redevelopment Agency action or their descendants and have been determined to be eligible under Sections 33411.3, as implemented under the Property Owner and Occupant Preference Program (2008), and 34178.7 of the California Health and Safety Code.

**Existing Resident:** means residing in the Program Area for at least six consecutive months prior to application (subject to reasonable exception for military or other government service, education, or institutionalization), as demonstrated by any appropriate means determined by MOHCD.

**Program Area:** means the areas of 94124, 94134 and 94107 zip codes.

### C. Procedures for Obtaining a LIT Loan

#### 1. Funds Reservation

LIT funds are available on a first-come, first-served basis, subject to funding availability. To apply for a Reservation, the applicant must enter into a purchase agreement, and secure eligible financing through a MOHCD-approved Lender listed at <https://sfmohcd.org/lender-list>. Immediately following the execution of a purchase agreement between a buyer and a seller (with the required closing timing and financing contingency timing), the Lender must submit a complete request to MOHCD with the following documents:

#### LIT Loan Layered with Other MOHCD Homebuyer Programs:

- Request for Reservation of Funds in a form provided by MOHCD
- Purchase Agreement – ratified contract with all addendums
- MOHCD Conditional/Pre-Approval Letter
- Lender Closing Checklist

#### LIT Loan NOT Layered with Other MOHCD Homebuyer Programs (Stand-alone LIT Loan):

- Request for Reservation of Funds in a form provided by MOHCD
- Purchase Agreement – ratified contract with all addendums
- DALP Full Application (See Section 6-3(D) (*Submission of a Full Application*) of the DALP Manual)
- Lender Closing Checklist (required only if the request is submitted at the same time as the Lender submits a Lender Package for final approval). See Section 6-3(F)(2) (*DALP Lender Package Submittal Period*)) except the following:
  - Application Fee (not required)
  - General Home Inspection Report (not required)
  - Pest Inspection Report (not required)

Within fifteen (15) business days after receipt of a complete request, MOHCD will approve or disapprove the request. If MOHCD approves the request, then MOHCD will issue a Reservation confirmation letter and reserve the LIT funds for ninety (90) days to close the sale. It is important to note that a reservation of LIT funds does not constitute final loan approval. The final eligibility will be determined by MOHCD upon receipt of the Lender Package.

## **2. Reservation Extensions**

Upon the applicant's written request, MOHCD may grant one (1) extension of up to thirty (30) days for a Reservation if there are extenuating circumstances that are beyond the applicant's control. Additional extensions may be granted by MOHCD on a case-by-case basis, and in its sole discretion.

## **3. Reservation Transfers**

MOHCD will not allow a transfer of a Reservation from one applicant to another. However, MOHCD may allow a loan transfer from one MOHCD-Approved Lender to another after the Reservation confirmation letter has been issued, the new Lender will be required to verify that the applicant meets the program requirements by resubmitting a complete Lender Package to MOHCD for review and approval. The transfer will be recognized and approved by MOHCD only after MOHCD receives written notification from the original Lender. The Reservation committed to an applicant may not be transferred from one property to another, except as a result of an unsatisfactory home inspection or failure of the seller to proceed with the sale. MOHCD may, in its sole discretion, grant one extension of time as set forth in APPENDIX 6-C-2 above (*Reservation Extensions*).

## **4. Reservation Cancellations**

The Lender and applicant are respectively responsible for immediately canceling a Reservation if escrow is cancelled. Any funds allocated to the applicant will be unencumbered and made available to the next applicant on a first-come-first-served basis.

## ***D. Program Eligibility and Compliance***

Other than as specified in this Appendix, all other DALP program requirements will apply. Refer to this Manual for a detailed description of the DALP program requirements and procedures.

### **1. Eligibility Timeline:**

- From May 21, 2024 to May 21, 2028, LIT funds are reserved exclusively for COP Holders.
  - After May 21, 2028, any remaining LIT funds may assist low- and moderate-income First-Time Homebuyers in the Program Area, prioritized in the following order:
    - (i) Existing Residents of the Program Area purchasing a home in the Program Area
    - (ii) Existing Residents of the Program Area purchasing a home in the San Francisco
    - (iii) San Francisco residents purchasing a home in the Program Area
2. First-Time Homebuyer: No member of the applicant Household may have owned any interest in a residential unit during the three-year period preceding the date of the application for a LIT loan.
  3. Maximum Household Income: Borrower's Household Income cannot exceed 120% of the Area Median Income (AMI).
  4. Loan Amount: LIT Loans will be made in increments of Thirty-Eight Thousand Dollars (\$38,000), or if LIT Loan funds are less than the total amount of a LIT Loan, then a LIT Loan may be made in that lesser amount. However, under no circumstances shall the total amount of a LIT loan be less than Five Thousand (\$5,000). Each household is limited to one LIT loan.
  5. Eligible Uses: LIT funds can be used to cover down payment or pay for customary, non-recurring loan closing costs up 3% of the purchase price or appraised value, whichever is less.
  6. Household Size Compatibility: There is no requirement for the size of a household to be compatible with the size of the Property being purchased under the LIT program.
  7. Layered Financing: The LIT loan may be layered with other MOHCD's homebuyer programs (such as BMR or DALP), as long as the Borrower meets the eligibility requirements for all the programs used in connection with the purchase of a Property. In the case of any conflicting requirements, the more restrictive will apply.
  8. Inspection Reports: The General Home Inspection Report and Pest Control Inspection Report requirements may be waived.
  9. LIT Loan Term and Repayment: The term of the LIT is ten (10) years. The LIT loan bears no interest, nor shared appreciation. The loan is due upon sale, transfer of the property, or non-compliance with LIT program rules or contractual obligations, including, but not limited to, unauthorized lease of the Property or unauthorized title transfer of the Property. If any defaults occur within five (5) years of the date the loan is issued, then the loan must be paid off in full. If at any time during the 10-year period, the Property is sold, rented or title transferred, or if the Property is no longer used as the Borrower's Primary Residence, the LIT loan (or remainder not then forgiven) will immediately come due and Borrower will be required to repay the

outstanding amount. No proration will be allowed. No prepayment penalty will be assessed. The following charts illustrate lump sum repayments of LIT loans in the amounts of \$34,200:

Year 1	\$34,200	Year 6	\$27,360
Year 2	\$34,200	Year 7	\$20,520
Year 3	\$34,200	Year 8	\$13,680
Year 4	\$34,200	Year 9	\$ 6,840
Year 5	\$34,200	Year 10	\$ 0

10. LIT Loan Forgiveness: If the property is not sold, rented or otherwise transferred, and the Borrower complies with all of the terms and conditions of the LIT program, then after the 5th year, the loan is forgiven at a rate of twenty percent (20%) each year on the anniversary date of loan closing, and at the end of the 10th year, the loan is forgiven in its entirety.