



Assets, Compensating Factors and BMR DALP

MOHCD Homeownership Programs Announcement 2019-03

Date of Announcement: December 19, 2019

Effective Date: effective immediately

The Mayor's Office of Housing and Community Development (MOHCD) of the City and County of San Francisco (City) is announcing program updates related to:

- Treatment of Inherited retirement assets
- Treatment of stock options, restricted stock (RS) and restricted stock units (RSU)
- Compensating factors to be used for a higher front-end ratio
- Below Market Rate Downpayment Assistance Loan (BMR DALP) Loan Amount

Each of the updates is described below. MOHCD partners should review each topic to gain a full understanding of the policy requirements.

Treatment of Inherited Retirement Assets

We are clarifying how inherited retirement assets are treated when qualifying an applicant for MOHCD's homeownership programs. Retirement assets include monies within an employer-sponsored retirement plan such as 401K or 403B plan, an IRA, an annuity, or some combination of these accounts.

In the case of inherited retirement assets, if an applicant has begun receiving distribution payments except a one-time lump sum distribution, then these payments are counted as income. If an applicant has not yet begun receiving distribution payments or a distribution schedule is not already set up, the full value of these assets are treated as liquid assets. Retirement assets inherited from spouses are treated as applicant's (their own assets), and are subject to its relevant rules specified in the program manuals.

Treatment of Stock Options, Restricted Stocks and Restricted Stock Units

We are clarifying how stock options, restricted stocks (RS) and restricted stock units (RSU) are treated and adding specificity related to our documentation requirements when qualifying an applicant for MOHCD's homeownership programs.

Stock Options

Vested stock options are treated like any other liquid asset account. However, non-vested stock options are not treated as assets. To verify if the funds in the form of stock options are vested or non-vested, we require 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.

Restricted Stocks and Restricted Stock Units

The treatment of restricted stocks and restricted stock units primarily depends on: 1) whether the shares are vested or non-vested; and 2) whether the shares have been exercised or not.

- Non-vested restricted stocks/restricted stock units are generally not treated as income nor liquid assets.

- Vested restricted stocks/restricted stock units can be treated as income or liquid assets.
 - i) If the applicant has been receiving income from exercising/selling the vested shares over the last 12 months with remaining shares sufficient to support continuous receipt of income, they will be treated as income.
 - ii) If the applicant has not been receiving income from the vested shares in the past, they will likely be treated as liquid assets.

Documentation required for restricted stocks/restricted stock units (not matter whether they are vested or not) include:

- The most recent 3 month or last quarterly brokerage or bank statements;
- Award Agreement; and
- Vesting schedule detailing past and future vesting.

If the applicant has been receiving income by selling their shares, we also need evidence receipt of payouts of stock options, such as paystubs (or written VOE), employer-provided statement paired with the brokerage or bank statements showing transfer of shares of funds with dates of the payouts, the number of vested shares or its cash equivalent distributed.

Compensating Factors to be Used for a Higher Front-End Ratio

We are updating the compensating factors that may be used to allow for a higher front-end ratio (also known as housing expense-to-income ratio).

MOHCD may consider a maximum front-end ratio up to 43% 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 housing being purchased; (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 (5) percent over previous housing expenses.

BMR DALP Loan Amount

The BMR DALP will extend the maximum loan amount for the lessor of:

- Amount of need based on maximum first mortgage financing; or
- Maximum BMR DALP loan amount, up to 20% of the sales price

Under no circumstances will the City provide funds to a homebuyer in excess of what is needed to close the loan.

Related Announcement: [BMR DALP Program Announcement 11-30-16](#); [BMR DALP Subordination Announcement 9-25-18](#); [BMR Units at MIRA and BMR DALP Announcement 10-01-19](#).

Resources and Contact

All of the above information has been posted to the MOHCD Announcement Webpage at:
<https://sfmohcd.org/mohcd-homeownership-program-announcements>.

Please contact MOHCD Homeownership Programs at 415-701-5500 with any questions regarding this Announcement.

We thank you for your continued support and partnership.