

*MAYOR'S OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT*

**LIMITED EQUITY  
HOMEOWNERSHIP PROGRAM**

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**Loan Disclosure Information  
With Statement of Acceptance**

**November 2024**

**IMPORTANT  
NOTE TO THE READER**

*In 2012, the San Francisco Redevelopment Agency (“SFRA”) was dissolved pursuant to California law. The Successor Agency to the Redevelopment Agency of the City and County of San Francisco, commonly known as the Office of Community Investment and Infrastructure (“OCII”), then became responsible for completing certain affordable housing obligations of the SFRA, including residential units to be sold under the Limited Equity Homeownership Program. The San Francisco Mayor’s Office of Housing and Community Development (“MOHCD”) implements the Limited Equity Homeownership Program on behalf of OCII.*

The purpose of this Program Summary is to explain the Limited Equity Homeownership Program (“Limited Equity Program” or “Program”). Homes sold through this Program are subject to price controls at resale, as well as other terms and restrictions that affect your rights as a homeowner. Some of the terms and provisions are complex and require that you thoroughly understand them prior to your purchase of a home.

**IF YOU DESIRE TO PARTICIPATE IN THE PROGRAM AND PURCHASE A HOME, YOU MUST ATTEST TO YOUR FULL UNDERSTANDING OF AND AGREEMENT TO ALL THE PROGRAM’S TERMS AND CONDITIONS BY SIGNING BELOW PRIOR TO CLOSING ESCROW.**

This Program Summary has been provided to a prospective homeowner under the Limited Equity Program as a convenience only but does not override any of the City Documents (defined below) associated with the Program. If any information in this this Program Summary conflicts in any way with any of the City Documents, the information in the City Documents override this Program Summary.

I, the undersigned, hereby acknowledge and accept all the terms and conditions contained in the Declaration of Restrictions for For-Sale Affordable Housing Units and Option to Purchase Agreement, the Promissory Note Secured by a Deed of Trust, the Deed of Trust and Assignment of Rents, and the Acknowledgment of the Declaration, Notice of Affordability Restrictions, and the City and County of San Francisco Inclusionary Affordable Housing Program Monitoring and Procedures Manual effective July 25, 2024, as it may be updated and amended from time to time (the “Procedures Manual”), all of which (“City Documents”) I have agreed to comply with in return for purchasing my home at a below-market-rate price.

I acknowledge that a staff member of the Mayor’s Office of Housing and Community Development (“MOHCD”) of the City and County of San Francisco (“City”) explained the terms and provisions of the City Documents to me, and that I have had a chance to review this Limited Equity Homeownership Program Loan Disclosure Information document and the Procedures Manual, which further explain the City

Documents. I have also been provided enough time to seek an independent legal opinion about the City Documents and my purchase of the home, if I so chose.

I understand that by my execution of the City Documents, I agree that the resale price of my home will be restricted to a price that is affordable to a household of a predetermined size, earning a pre-determined percentage of Area Median Income ("AMI"), based on figures published by MOHCD, based on data published by the U.S. Department of Housing and Urban Development (or any government agency subsequently assuming this responsibility). I understand that MOHCD will determine the resale affordable price applicable to my home when I notify the City of my intent to sell. I understand that fair market value will not determine the resale affordable price of my home.

I further understand that the MOHCD's calculation of the resale affordable purchase price for my home will consider, in addition to the current income for a pre-determined AMI level, an interest rate which is the 10-year rolling average of 30 years of interest rates as calculated by the MOHCD (or its successor) and based on data provided by Freddie Mac, as well as other current housing costs, such as insurance, HOA dues, and taxes. I know that any proceeds I receive from the sale of my home will be affected by the value of these factors, since they will be used to calculate the resale affordable purchase price of my home.

I understand that the MOHCD imposes resale restrictions on homes that it subsidizes so that it can provide homeownership opportunities to future generations of low- and moderate-income families over time and that the equity I will be able to build in my home will be limited so that the Program is available to the next purchaser of my home. I understand that my ability to purchase my home at an affordable price is contingent on my agreement to comply with the resale controls and Program restrictions.

**BMR Lien# LEPBMR191000**

**PROPERTY ADDRESS: 123 Sample Street, Unit 2, San Francisco, CA 94103**

**BUYER(S):**

\_\_\_\_\_  
**Mary Sample**

\_\_\_\_\_  
**John Sample**

\_\_\_\_\_  
**Ellen Sample**

\_\_\_\_\_  
**Jack Sample**

## PROGRAM SUMMARY

- The purpose of the City's Limited Equity Homeownership Program ("Program") is to provide homeownership opportunities to low- and moderate-income households ("Eligible Buyers") who otherwise would not be able to purchase a home in San Francisco.
- To make homes affordable to Eligible Buyers, the City may sell land to developers at below-market-rate prices and/or provide construction funding. In return for this assistance, developers agree to sell the homes to Eligible Buyers. Eligible Buyers, in turn, purchase their homes at affordable prices and agree to comply with Program requirements.
- The City is able to offer the benefits of homeownership to many generations of Eligible Buyers through restrictions on resale prices, which limit the amount of equity that an Eligible Buyer is able to build. By limiting Eligible Buyers' equity, a given home can be resold at affordable prices again and again. Market fluctuations, which often result in prices beyond the affordability of low- and moderate-income households, do not affect limited equity resale prices.

## PROGRAM ELEMENTS

### #1: Eligibility

To qualify as an Eligible Buyer, households must meet the following criteria:

- Household income (including income calculated from assets) within the AMI "target range" of low- to moderate-income buyers.
- Ability to qualify for a 30-year fixed mortgage, such as, sufficient income, manageable debt, sufficient savings to cover the minimum buyer contribution, closing costs, and required reserves.
- A minimum of 1% of the purchase price toward down payment and/or closing costs (the entire 1% may be gift funds).
- A minimum of 2 months of housing payments (principal, interest, property taxes, hazard insurance, HOA dues and other related costs).
- First-time homebuyer status.
- Commitment to use the property as the buyer's primary residence.
- Any other requirements as set forth in the Procedures Manual.

MOHCD publishes AMI levels for San Francisco annually, based on data published by the U.S. Department of Housing and Urban Development. The AMI target ranges that determine a household's eligibility to purchase will vary from development to development, based on the amount of subsidy provided by the City to the developer. MOHCD will qualify all first-time homebuyers for both initial sales and resales. Program qualification documentation is required and detailed in the Procedures Manual.

## **#2: Affordable Purchase Prices**

When developers set affordable purchase prices for units they sell, they use very specific information, as described below:

- AMI level: Developers in contract with the City are obligated to sell their units at prices affordable to households within a certain AMI "target range." For example, a developer in 2019 may be obligated to sell his/her units to households making between 80% and 100% of AMI. For a household of 3, this translates to incomes between \$88,700 and \$110,850.
- Household size: For the pricing calculation, the City assumes a household size is one person larger than the total number of bedrooms (except studio units which assume a one-person household; and SRO units which are calculated at  $\frac{3}{4}$  of the price of a studio). For example, a household of one person is assumed for a studio, three people for a two-bedroom, four people for a three-bedroom, and so on. For occupancy, the City requires a minimum of one person per bedroom. For example, a single person can apply for a studio or one-bedroom unit only. A two-person household could apply for a studio, one-bedroom, or two-bedroom unit.
- 33% "PITI": Principal, interest, taxes, homeowners' insurance, homeowner's association dues and any other related costs – total housing costs – are assumed to be 33% of a household's gross monthly income.
- First mortgage interest rate: The City's calculation assumes a fixed mortgage interest rate based on the 10-year rolling average of 30 years of interest rates as calculated by MOHCD (or its successor) based on data provided by Freddie Mac.

- Down payment: The City assumes a down payment of 5% of the purchase price for the purpose of calculating affordable purchase prices. However, the minimum buyer contribution required under the Program is 1% of the purchase price.

Once MOHCD determines, for each unit, the applicable AMI level, the household size, the cost of taxes, HOA dues and insurance, and the interest rate, MOHCD can set the affordable purchase price. For example, a two-bedroom unit (which assumes a household of three) and the developer's obligation calls for pricing at an AMI level of 95% (with income eligibility up to a maximum of 100% of AMI), the three-person household's income would be \$105,300 in 2019. 33% of that income level is \$34,749, or \$2,896 per month. This figure, \$2,896, is the target total monthly payment for housing costs for all households buying at this income level. If the household's HOA dues were \$700 per month, taxes were \$450 per month, and property insurance was \$100 per month, the total monthly income available to pay the first mortgage would be \$1,646 per month (i.e.,  $\$2,896 - \$700 - \$450 - \$100 = \$1,646$ ). Using a 5% interest rate on a 30-year, fixed-rate first mortgage, the supportable mortgage would be \$306,573. Assuming a 5% down payment (which is \$16,135), the affordable purchase price would be \$322,708.

### **#3: Resale Affordable Purchase Prices**

When a household decides to sell its home, it notifies the City, and the City calculates the resale affordable purchase price, using the same AMI percentage and household size that were used to calculate the seller's affordable purchase price. To follow the example given above, the family of 3 earning 95% of AMI that bought its home for \$322,708 in 2019 might decide to sell the home five years later. The City will determine the resale price by taking the income for a 3-person household at 95% of AMI in 2024 and limiting payments for PITI to 33% of gross monthly income. The calculation will use the then current 10-year rolling average of rates, and the then-current HOA, tax, and insurance costs, and it will assume a 5% down payment by the new Eligible Buyer. So, for example, if the ten-year average interest rate increased 0.5% between 2019 and 2024, taxes and insurance increased 10%, and eligible capital improvement costs \$5,000, the resale affordable purchase price would be \$403,174. After subtracting the cost of necessary repairs (if any) and closing costs, the seller would be entitled to

the difference between the old affordable price and the new affordable price. The example is shown numerically below:

|  |                  |
|--|------------------|
| 95% AMI, 3-person HH income (2024):                    | \$128,100        |
| 33% of gross income:                                   | \$42,273         |
| Per month:   | \$3,523          |
| Monthly HOA dues, taxes & insurance, 2024 (2019 + 10%) | (\$1,375)        |
| Monthly income available for 1 <sup>st</sup> mortgage: | \$2,148          |
| Mortgage (assuming 5.5% interest, 30-yr fixed)         | \$378,266        |
| 5% Down payment:                                       | \$19,909         |
| Resale Affordable Base Price:                          | \$398,174        |
| Eligible Capital Improvements:                         | \$5,000          |
| <b>Resale Affordable Purchase Price:</b>               | <b>\$403,174</b> |
|  |                  |
| Resale Affordable Purchase Price (2024):               | \$403,174        |
| Closing costs (6% of Purchase Price)                   | (\$24,190)       |
| Original Affordable Purchase Price (2019):             | (\$322,708)      |
| Owner's new equity:                                    | \$56,276         |
| Plus principal paid on the mortgage:                   | \$28,519         |
| Plus return of owner's down payment:                   | \$16,135         |
|  |                  |
| <b>Net Return to Owner:</b>                            | <b>\$100,930</b> |

By transferring this property from one 95% AMI household to another under the Program, the home remains affordable, the benefits of homeownership are passed along, and all owners have a chance to earn limited equity!

#### **#4: Capital Improvements: Maintenance**

As shown above, AMI levels and current housing costs such as interest rates, HOA dues, property taxes and insurance costs determine affordable prices. Eligible Capital Improvements credit may be added to the resale affordable price as provided in Section 6.3 of the Declaration.

Owners may begin claiming capital improvements in their resale price that are made ten (10) years after the initial sale of the property. Owner must follow the Capital Improvements policies and procedures as set forth in the Procedures Manual.

#### **#5: Minimum Resale Value**

As described above, the resale affordable purchase price is subject to factors that fluctuate over time, such as mortgage interest rates, taxes, and insurance costs. Because of the variability of these factors, **owners assume some risk when they purchase their homes!** For example, if the interest rate used

in the pricing calculation increases from the time of initial purchase to time of resale, and increases in AMI over that same time do not compensate for the interest rate increase, a resale affordable purchase price could actually be lower than the original price an owner paid. The MOHCD's use of the 10-year rolling average of interest rates is intended to minimize the interest rate risk at resale, but there is no guarantee that the 10-year average will not increase over time.

**Owners are solely responsible for:**

- Home Maintenance. Owner may not destroy or damage the property, allow the property to deteriorate, or otherwise commit waste on the property. Owner must maintain the property in compliance with all applicable laws, ordinances, and regulations and in a good and clean condition and all appliances and fixtures must be in good working order. Any damage by abnormal or excessive wear and tear or because of neglect, abuse, or insufficient maintenance, must be repaired as provided in Section 7.5 of the Declaration.
- Inspection and Repairs upon Resale. Owner shall follow the MOHCD's Property Inspection and Repairs Policy as it exists at the time of the proposed resale as set forth in Section 7.5 of the Declaration, and as further detailed at <https://www.sf.gov/information/property-inspection-and-repairs-policy-bmr-resales>.
- First Mortgage Balance. If the resale affordable purchase price is insufficient to pay off the first mortgage, the owner is solely responsible for his/her mortgage debt beyond that adjusted resale affordable purchase price. Please note that the first mortgage lender will not release its lien unless the mortgage is repaid in full. If the first lender does not release its lien because the owner has not or cannot fully repay it, then the sale will be cancelled, or the owner will be in default.

**#6: Owner Refinancing**

***To protect its investment and to preserve the intent of the Program, the City must approve all refinancing agreements.***

Owners must obtain MOHCD's prior written approval of any refinancing of a 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 as specifically provided in the MOHCD Subordination Policy. Owners must follow the MOHCD Subordination Policy at <https://www.sf.gov/refinancing-and-subordination>.

### **#7: Permissible Transfers & Resales**

Owners may transfer the property only to an Eligible Buyer under the Transfer Procedures in Section 7 of the Declaration.

### **#8: City Purchase Option**

While the City may purchase the home as an Eligible Buyer (in a standard sale transaction), it retains an option to purchase the home in the event of owner default under either the City Documents or the first mortgage.

### **#9: Owner Default and City Remedies**

An owner is in default of the City Documents if any of the following occur:

- A transfer of the property in violation of the Declaration of Restrictions for For-Sale Affordable Housing Units and Option to Purchase Agreement;
- Use of the property other than as owner's primary residence (owners must certify annually that they occupy the home at least 10 months out of every 12);
- Renting or subleasing any part of the property is not permitted without the prior written approval from the City. No part of a property can be rented or subleased as a short-term rental or listed on short-term rental or vacation rental sites at any time. Renting of a parking space or any other space purchased with the property is also prohibited.
- Failure to pay required housing costs, such as taxes, homeowners association dues, assessments, or insurance;
- Placement of any mortgages, liens, or encumbrances on the property that the City has not approved;
- Any other violation of the City Documents; or
- A default on the first mortgage.

If an owner is in default and doesn't or can't cure the default within the times specified in the City Documents or first mortgage documents, the City can exercise its purchase option, commence an action for specific performance or an injunction to prevent an impermissible sale, foreclose on its deed of trust, and/or exercise any other remedy permitted by law.

**#10: City Promissory Note and Deed of Trust**

To protect its investment, the City requires that all owners execute a promissory note and deed of trust when they purchase their homes. Its purpose is to protect the City's investment if an owner defaults on the first mortgage or City obligations. An owner default "triggers" the promissory note and City deed of trust, which secures the promissory note against the property and is recorded to provide public notice of the owner's obligations under the Program. In the case of default, the promissory note states that the owner must pay the City the entire principal balance and the Appreciation of the Note, together with all accrued and unpaid interest thereon, if any. The Appreciation is calculated as the amount equal to the difference between (i) Unrestricted Price, and (ii) the appraised fair market value of the property at the time of resale without regard to the Property Restrictions.

Financing for the 3-person, 95% AMI household can again illustrate the issue. This household had an affordable purchase price of \$322,708 with a BMR Note of \$477,292 (calculated based on the fair market value at the time of purchase \$800,000). If they defaulted on their loan, and fair market value was, for example, \$1,000,000, they would owe the City \$677,292 (plus default-related costs) under the City's promissory note.

If an owner transfers his/her property according to the Program requirements and complies with all other City and first mortgage obligations, the City will simply terminate the promissory note and deed of trust at resale.

**#11: Transfer by Marriage, Domestic Partnership, and Inheritance**

If an owner marries or enters a domestic partnership, the spouse or partner can become a co-owner but no sooner than 12 months after the original purchase. If Owners enter into a dissolution of marriage or

Domestic Partnership after purchasing the property, an Owner may be removed from the title of the property on Owners' mutual agreement but subject to the City's prior written consent.

Upon the death of a property owner or owners, the home can be transferred by inheritance, will, or any other function of law to the Owner's child or stepchild, spouse, or Domestic Partner who is not named on the deed, provided that transferee is an Eligible Buyer. See the Transfer requirements and procedures as set forth in the Procedures Manual for details.

**#12: Term**

The term of the City Documents –the period of time that resale restrictions and all other City obligations-- apply for the life of the Project. Notwithstanding the foregoing, the Declaration will terminate on: (i) a Transfer of the property in compliance with the terms of the Declaration, and (ii) execution and recordation of a declaration with the same form and substance as the Declaration by the Eligible Buyer.