BORROWER DISCLOSURE STATEMENT

SAN LUIS OBISPO COUNTY DEPARTMENT OF PLANNING AND BUILDING
976 OSOS STREET ⬩ ROOM 200 ⬩ SAN LUIS OBISPO ⬩ CALIFORNIA 93408 ⬩ (805) 781-5600

Promoting the Wise Use of Land ⬩ Helping to Build Great Communities

The County of San Luis Obispo (the "County") established the First Time Homebuyer Program (the “Program”) by providing qualified low income households like yours second silent loan so that you will be able to buy your home.

In return for providing your loan, the County will require you to sign a Promissory Note, a Deed of Trust, and a Recapture Agreement & Option to Purchase (the "Recapture Agreement"). The Deed of Trust and Recapture Agreement will be recorded against your property. In general, the Promissory Note, the Deed of Trust, and the Recapture Agreement contain important provisions relating to the following:

- The Agreement requires you, as the owner, to live in the home as your main residence and does not allow any leasing of the home.
- The County has an option to purchase the home in the event you put the home up for sale or attempt to transfer or assign any interest in the home (with certain exceptions).
- If you take out loans on your property, other than your first mortgage and the County’s loan, you must begin making payments on the County’s loan.

The purpose of the Recapture Agreement is to ensure that the goal of County financing to help households like yours own their own homes continues to be met by ensuring that it is able to recover its investment. The County has helped you to buy a home; it wants to be able to help others as well.

This Disclosure Statement explains the major provisions of mainly the Promissory Note and Recapture Agreement to make sure that you understand their requirements. **You should, of course, read carefully all of the County loan documents yourself and become completely familiar with them.**

PRIMARY RESIDENCE & LEASING OF RESIDENCE

Under the terms of the Recapture Agreement, the house you buy with County loan funds must be your main place of residence. This means that you must live in the house no less than 10 months out of each calendar year. In addition, you cannot rent or lease your home at all.

**Note - Numerical examples are included in this Disclosure Statement to help you better understand the concepts, terms, and provisions of the Recapture Agreement and your County loan. Please be aware that these are simply to show how things work and that they are not intended to represent your specific situation. If you follow along with a calculator, you may not get exactly the same answers. Any differences may be due to how your calculator "rounds off" numbers.

RESALE CONTROLS

If you decide to sell your home or transfer your home or an interest in your home, you agree under the Recapture Agreement to do certain things, as described below. The only time this does not apply is when transfers are by gift or inheritance to a living husband or wife, domestic partner, child, surviving joint tenant, or a husband or wife as part of a marriage or a divorce proceeding.

NOTICE TO THE COUNTY

If you decide to transfer or sell your home or any partial interest in your home, or, if you will no longer live in your home, you must let the County of San Luis Obispo know in writing at least ninety (90) days before any of these actions take place.

COUNTY HAS OPTION TO PURCHASE

When you accept County financial assistance, you agree that if you transfer, sell, or move from your home, the County retains an option to purchase your home or to assign its right to purchase your home. In other words, the County has the first opportunity to buy your home before anyone else. If the County in fact chooses to purchase your home, it shall notify you within thirty (30) days after it receives your notice to sell or otherwise transfer your home. The purchase of your home by the County shall take place within ninety (90) days of the date the County receives your notice to sell or transfer your home.

Should the County decide to go ahead and use its option to buy your home, the amount of money you owe on the loan, including interest, will be credited against the purchase price of your home. For example, if you owed $14,950 (the original County loan amount plus interest) and the sales price at which you offer your home is $130,000, you would receive $115,050 from the County.

Instead of buying the home itself, under the Recapture Agreement, the County can also give its right to buy your home to someone else such as another low income homebuyer like yourself or a government agency or another nonprofit organization devoted to developing affordable housing.

If you notify the County of your intent to sell or transfer, and the County does not choose to either buy, or assign its right to buy, your home, you may sell to anyone you choose.

If the County decides to use its option to purchase your home, the price you will receive for the house will be the lesser of (i) the price at which you offer the home for sale, (ii) a price agreed upon by you and the County, or (iii) the Fair Market Value of the residence, determined as discussed below.

Fair Market Value. Under the Recapture Agreement, the Fair Market Value can be determined in one of two ways. First, it can be established by a real estate appraiser selected by you from a list of appraisers provided by the County. If possible, the appraisal will be based on the sales prices of homes similar to yours which are sold in your area during the preceding three-month period. The cost of the appraisal will be shared equally between you and the County. For example, if the appraisal cost $500, you will be responsible for $250 and the County will have to pay $250.

The Recapture Agreement also allows you and the County to set the Fair Market Value of your home by mutual agreement instead of relying on an appraiser. Both you and the County would have to agree to this particular method (instead of hiring an appraiser) and to the final Fair Market Value, either one can require use of the appraisal method.

REPAYMENT OF COUNTY ASSISTANCE

Your loan from the County is a "deferred" loan. This means that as long as you own the home and you do not violate any of the terms of the Promissory Note, Deed of Trust, and the Recapture Agreement, you do not have to start paying the loan back until 20 years have passed from the date of the Promissory Note. If you sell the home before the 20th anniversary of the Promissory Note, though, or if you break the terms of the loan documents or Recapture Agreement, the loan will be immediately due and payable.

The payments of the principal and interest on the County loan that are due beginning on the 20th anniversary of the Promissory Note are to be made monthly in equal amounts so that the County loan (principal and interest) will be paid off in 30 years. See Example 1 below.

The County loan carries a "simple interest" rate equal to an annual percentage that is three percent (3%). Simple interest is interest that is calculated on the principal only (that is, the original loan amount) and not on the amount of interest that may have built up. For example, if your original County loan amount was $13,000 and the simple interest rate were 3% per year, interest would build up like in the interest schedule that follows.

Example 1: Simple Interest Schedule
This assumes a simple interest rate of 3% accruing for 20 years on a $13,000 second mortgage loan. No payments on the loan have been made.

Years Owning Home	Amount of Interest Charged for Year	Total Amount Owing (Principal & Prior Year's Unpaid Interest Plus Current Year's Interest on Original Principal Amount)
1	$ 390	$ 13,390
2	390	13,780
3	390	14,170
4	390	14,560
5	390	14,950
and so on up to 20 years		20,800

Taking the assumptions of Example 1 above, then, if the owner sold the home after 5 years of owning it, a total of $14,950 would be owed to the County (principal in the amount of $13,000 and interest in the amount of $1,950).

If, however, you remain in your home for 20 years and continue to meet the requirements of the County loan, the amount of interest that has built up over that time will be divided by 360 (30 years of Monthly payments) and added to the payments of principal and interest on the then principal balance so that the total will be repaid on an amortized basis as described in the next section.

Required Payments After 20 Years. The payments of principal and interest on the County loan that are due beginning on the 20th anniversary of the Promissory Note are to be made monthly in equal amounts so that the principal and interest on the County loan (including the interest that accrued in the first 20 years) will be paid off in 30 years. See Example 2 below.

Example 2: Required Payments After 20 Years
You signed your Promissory Note on January 1, 1996. It is now 2016 and you have lived in your house for twenty (20) full years. You must begin to make payments on your County loan total which is $20,800 made up of the $13,000 original principal amount plus $7,800 of accrued interest.

Payments Must Begin
On January 1, 2016, you must start to make payments on your County loan. You will pay your County loan off over 30 years. Your monthly payments on the County loan would equal $76.48. This payment consists of two parts:

$ 7,800	divided by 360 payments	$ 21.67
$ 13,000 amortized at 3% for 360 payments		$ 54.81
Total Payment		$ 76.48

After you have begun making the required payments, if you sell your home, the amount of money that is still owing is the $7,800 less any payments made on the accrued interest and $13,000 less any principal payments made on this portion..

Order of Repayment
If the County does not exercise its option to buy your home, you may sell to anyone you choose. In this case, upon sale, you shall:

1. Pay all the principal and interest due to the lender of the first mortgage, then
2. Recover the amount of your original downpayment and the Value of Improvements, if any, less the value of any Needed Repairs on your home, then
3. Pay the County all principal and interest that is owed on the County loan.

Reduction of Interest, If Necessary
The County's promissory note provides that when your loan becomes due, if necessary, interest on the County loan will be forgiven or reduced so that the sum of the following is not more than the sales price of your home:
1. The amount you owe on the County loan; plus
2. The amount you owe on your first mortgage; plus
3. The amount of your original downpayment; plus
4. The value of substantial structural or permanent improvements you have made to your home

Loans Others Than First Mortgage and County Loan

If you take out any other loan on your home (besides the approved First Loan and the County loan) that requires (a) the recording of a deed of trust, and (b) payments on the loan at any time prior to the full repayments of the County loan, you must begin to make monthly payments on the County loan. The required payments on the County loan will be made in equal amounts so that the principal with interest at three percent (3%) will be paid off at the end of thirty (30) years. The 30-year period will start on the date the deed of trust for the other loan is recorded in the Official Records of the County of San Luis Obispo. Under the terms of the County loan Promissory Note, if you take out this other loan within the first five (5) years, of owning the home, the 30-year period would not begin until the end of the fifth (5th) year and you would be required to begin making payments on the County loan in the first month of the sixth (6th) year.

If, however, you take out this other loan after the first five (5) years, repayment of the County loan must start on the first day of the month following the month in which the Deed of Trust securing the other loan is recorded. Any interest on the County loan that accrued prior to the date of recording of the deed of trust for the other loan will be divided by 360 (30 years of monthly payments) and added to the principal and interest portion of your payment to the County.

Example 3: <u>Take Out Other Loans</u>
You have lived in your house for five (5) full years. You decide to take out another loan on your house in addition to your first mortgage and the County second loan. The new loan requires that you make payments during the term of your County loan. In addition, under the new loan, a deed of trust is recorded against your home. The recording of the new Deed of Trust takes place in December. Your County loan was for $13,000 at 3% simple interest for a term of 30 years.

<u>Payments Must Begin to be Made on the County Loan</u>
On January 1, you must start to make payments on your County loan. You will pay it off over 30 years. The 30-year period starts with the date of the recording of the Deed of Trust for the new loan. Your monthly payments on the County loan would equal $60.22.

$ 1,950 divided by 360 payments	$ 5.41
$ 13,000 amortized at 3% for 360 Payments	<u>$ 54.81</u>
Total Payment	$ 60.22

After you have begun making the required payments, if you sell your home, the amount of principal that is still owing (if any) and the interest that accrued on your County loan prior to the date of the interest recording of the Deed of Trust for the other loan less any payments are immediately due and payable. Notwithstanding the foregoing, in the event Borrower encumbers the Residence with an Other Deed of Trust prior to the end of the fifth year of the Note, the thirty (30) year amortization period shall not begin until the first day of the month following the end of the fifth year of the Note.

<u>DEFAULT PROVISIONS</u>

When you accept County loan assistance, you agree to meet all of the conditions of all the County's loan documents, including the Recapture Agreement. If you violate any provisions of the documents, you are considered to be in default under your County loan. Also, if you default under any other loan on the home, such as the first mortgage, you would also be considered to be in default under the County's loan. If you do not correct the violation, the County could require you to repay the County loan. The County could also go to court and get a court order to enforce the provisions of the County loan documents. In addition, if you fail to meet the requirements of the loan, the County has the right to file a lien against your home.

<u>REFINANCING FIRST MORTGAGE LOAN</u>

While the Resale Agreement allows you to refinance the first mortgage loan, the amount received from the refinancing can be no greater than the amount that is still owed on the first mortgage loan plus refinancing and closing costs <u>and</u> the interest rate on the loan must be a fixed interest rate. In addition, you may not refinance the first mortgage loan with a loan that includes "negative amortization". Negative amortization is when the monthly payments you make on the mortgage are not large enough to fully meet the principal and interest obligation over the term of the loan, which results in a gradual increase, instead of a decrease, of your mortgage debt.

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Please sign the enclosed copy of this Borrower Disclosure Statement in the space provided below and return it to the County of San Luis Obispo First Time Homebuyer Program.

I have read and understand the above Borrower Disclosure Statement.

By: ______________________________________ Date: ____________________
Signature of Borrower

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Printed Name of Borrower

By: ______________________________________ Date: _____________________
Signature of Borrower

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Printed Name of Borrower