# 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 a second silent loan so that you will be able to buy your home.

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

- The Agreement requires you, as the owner, to live in the home as your main residence.
- Renting out a room while occupying the home does not constitute a breach. However, renting the entire home and not living there is considered a violation.
- 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 Affordability Agreement is to ensure the goal of FTHB program that is helping households like yours to own their homes.

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

PRIMARY RESIDENCE & LEASING OF RESIDENCE

Under the terms of the Affordability Agreement, the house you buy with County FTHB loan 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.**

**Note - Numerical examples are included in this Disclosure Statement to help you understand the concepts, terms, and provisions of the Affordability 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 Affordability 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 any other forms of non-transfer, or, if you will no longer live in your home, you must let the County of San Luis Obispo know in writing at least sixty (60) days before any of these actions take place.

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 Affordability Agreement, you do not have to start paying the loan back until 30 years have passed from the date of the recordation of the Deed of Trust. The total principal and interest on the County loan are due at the end of the 30$^{th}$ year. This is called a balloon payment. If you sell the home before the 30th anniversary of the Deed of Trust or if you break the terms of the loan documents or Affordability Agreement, the loan (principal and interest) will be immediately due and payable. 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 the 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% on a $10,000 second mortgage loan with a term of 30 years. No payments on the loan have been made until the end of the 30 years.

| Years Owning Home | Amount of Interest Charged for Year | Total Amount Owing (Principal & Unpaid Interest) |
|---|---|---|
| 1 | $ 300 | $ 10,300 |
| 2 | 300 | 10,600 |
| 3 | 300 | 10,900 |
| 4 | 300 | 11,200 |
| 5 | 300 | 11,500 |
| and so on up to 30 years | | 19,000 |

Taking the assumptions of Example 1 above, then, if the owner sold the home after 5 years of owning it, a total of $11,500 would be owed to the County (principal in the amount of $10,000 and interest in the amount of $1,500). If, however, you remain in your home for 30 years and continue to meet the requirements of the County loan, the amount of interest that has built up over that time ($300 times 30) will be added to the principal balance ($10,000) so that the total principal and interest ($19,000) will be repaid.

Order of Repayment

When you sell your house, 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 2: Take Out Other Loans

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 $10,000 at 3% simple interest for a term of 30 years.

Payments Must Begin to be Made on the County Loan

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.

| | |
|---|---|
| $ 1,500 divided by 360 payments | $ 4.17 |
| $ 10,000 amortized at 3% for 360 Payments | $ 28.20 |
| Total Payment | $ 32.37 |

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.

## DEFAULT PROVISIONS

When you accept County loan assistance, you agree to meet all of the conditions of all the County's loan documents, including the Affordability 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.

## REFINANCING FIRST MORTGAGE LOAN

While the Affordability 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. 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.

* * * * * * * * * * * * * *

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

By: ____________________________________ Date: ____________________

Signature of Borrower

__________________________________
Printed Name of Borrower

By: ____________________________________ Date: ______________________
Signature of Borrower

__________________________________
Printed Name of Borrower