

ATTACHMENT C

County of Santa Barbara Inclusionary Housing Ordinance Program Administrative Manual

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I. Introduction

The Inclusionary Housing Program (IHP) is designed to promote the development of affordable housing to persons of all economic levels in the unincorporated areas of Santa Barbara County. The IHP affords an opportunity for very low-, low-, moderate-, and workforce -income households to purchase or rent affordable housing units that are deed-restricted for a certain number of years. Pursuant to the County of Santa Barbara's Inclusionary Housing Ordinance, as well as applicable Federal and State regulations, provisions predefine a minimum percentage of the total number of units to be restricted to below market-rate prices for a set number of years. To provide flexibility, the IHP allows a developer to comply with their requirement through any combination of:

1. Provision of affordable units on the same project site, or may be on a different project site from the market rate units if the project site with the deed restricted affordable housing units is in the unincorporated area of the County and within one mile of the project site of the market rate development, as measured in a straight line from the property lines of one parcel to the other
2. Payment of in-lieu fees which can be used to finance other affordable housing projects,
3. Construction of onsite ADUs on the same project site for the workforce income category requirement
4. A combination of the options set forth in subparts 1. through 3. above of this Introduction Section, that is acceptable to the county, and/or State of California

This Administrative Manual acts as a reference guide for County staff to administer and implement the various policies and programs with respect to affordable housing, including the County's Inclusionary Housing Ordinance and State Density Bonus Law.

A. Guiding Policies

The County Board of Supervisors originally adopted Inclusionary Housing Ordinance No. 4855 (IHO) on May 14, 2013, most recently amended through Resolution No. [5243](#) on March 18, 2025, as part of the County's General Plan.

B. Role of County Departments

The County's Housing and Community Development division (HCD) of the Community Services Department (CSD) oversees implementation of the IHP after the developer has finalized Conditions of Approval with respect to affordable housing through County Planning and Development (P&D). HCD is responsible for the following:

- Establish amounts of in-lieu fees for applicable housing market areas (HMAs)

- Perform annual updates to the maximum allowable sales price, rental rates, and annual income limits, which are adjusted for household size and income category based on the Area Median Income (AMI) for Santa Barbara County
- Monitor the marketing and sales efforts of developers
- Prepare agreements and covenants for developers and owners
- Facilitate lotteries for available housing units
- Serve as liaison between prospective homebuyers, lenders, escrow and title companies
- Monitor homeowner compliance with restrictive covenants, investigate violation inquiries and complaints, and assist with dispute resolution
- Administer resale of and rental certifications for affordable units
- Ensure that mortgage financing terms of deed restricted units comply with deed restriction and County Code requirements

C. Changes to Administrative Manual

The County's CSD Director may make changes to this Manual that the Director reasonably determines are necessary to clarify provisions or effectuate purposes of the program.

II. Financing for Inclusionary Housing Program Units

By purchasing an affordable unit, a property owner enters into an agreement with the County to ensure the unit remains affordable to households in the specified income category for the duration of the term. The terms of all financing secured against the subject property, whether at the time of sale or at any other time, must be approved by the County in writing.

A. Purchase Financing

At the time of purchase, HCD staff will coordinate with the buyer's choice of Traditional/Institutional Lender to ensure financing terms align with County guidelines. As the IHO requires the buyer to make a minimum down payment of 3%, the loan-to-value ratio may not exceed 97%. This means if the purchase price is \$300,000, the amount of the first trust deed must be \$291,000 or less. Generally, the buyer cannot acquire financing over a 97% loan-to-value with the exception of a Veteran's Administration (VA) loan. Other financing options, such as down payment assistance and closing cost assistance, may be considered.

1. Procedure

Once the buyer has chosen a lender, HCD will send the *Statement of Lender – for Purchase* form to the loan officer for completion and coordination with the escrow

company. The form requires the lender to submit information on the following, which enables the County to review and approve the proposed financing:

- First deed of trust amount,
- Interest rate,
- Term length,
- Type of mortgage, and
- Monthly payment.

By signing this form, the lender certifies the loan will be fully amortized over the loan term, subject to standard underwriting criteria, and there is no Second Deed of Trust. Unless compensating factors exist (as determined by County HCD) such as a higher FICO score or reduction of the applicant's current monthly housing expense, HCD will not permit mortgages on an affordable unit that contains the following:

- A pre-pay penalty or a balloon payment
- An underwriting approval based on a FICO score of less than 620
- An underwriting approval based on a back-end, total Debt to Income Ratio exceeding 50%
- An Adjustable-Rate Mortgage (ARM)
- An interest-only loan
- A split-rate loan
- A co-signer
- Financing which may result in negative amortization
- A loan-to-value ratio exceeding 97% of the purchase price
- HCD shall review final loan closing documents prior to escrow closing to confirm consistency with the information presented with a Homeownership Application or any Statement of Lender for purchase or refinance

Any other financing mechanism must be reviewed by HCD staff and approved by the Certification Committee.

The loan is not to fund until the lender has received final approval from HCD of all loan terms. HCD staff is to review the Loan Estimate (LE), Uniform Residential Loan Application (1003), and Uniform Underwriting and Transmittal Summary (1008) prior to close of escrow. Following HCD review and approval, the lender can draw loan documents. Once loan documents are drawn, escrow is to send HCD the unsigned Closing Disclosure (CD), the Promissory Note, Lender's Instructions to Escrow, and Final 1003. After reviewing these documents, HCD will send a final approval letter to escrow, with a copy to the lender, permitting the loan to fund.

B. Refinance

HCD shall approve refinances for affordable units so long as the result of refinancing will improve the homeowner's ability to repay their mortgage (such as in the examples below) without compromising the County's interest in the property. Examples in which the borrower will be improving the terms of their loan include:

- Lowering the monthly mortgage payment by taking advantage of lower interest rates without advancing new money on the loan.
- Consolidating two existing mortgages into one.
- Reducing the interest rate risk by switching from an adjustable-rate to a fixed-rate mortgage or from a balloon mortgage to a fixed-rate loan.
- Paying off the mortgage faster by shortening the term of the loan.

Homeowners must be in compliance with the affordability controls in the covenant and/or the requirements of the program at the time of a request to refinance.

1. Procedure

Owners of affordable units seeking to refinance will need to complete and submit an *Owner Request to Refinance* form, which can be found on the [HCD webpage](#) or can be mailed upon request.

Upon receipt of the owner's written and signed request to refinance, HCD staff will evaluate the request by completing the following:

- Review original file and post purchase file for homeowner.
- Review all monitoring and/or previous refinances on the property.
- Review of all recorded documents on the property since purchase.
- Verify the original purchase price.
- Verify the original loan-to-value at the time of purchase.
- Verify the approximate amount of existing loans to be paid off.
- Verify the amount available for cash-out based on 97% loan-to-value of the original purchase price.

If the terms of the proposed loan are more favorable than that of the existing loan(s), HCD will send an acknowledgement letter to the homeowner indicating conditional approval of the loan purpose and instruct them to proceed with the refinance process. Once the homeowner has committed to an approved lender or mortgage broker, HCD will send the *Statement of Lender for Refinance* form for completion by the loan officer along with a request for the LE, 1003, and 1008.

HCD will review the form 1003 as a cross-reference for relevant financial information about the borrower: gross monthly income, employment, assets and liabilities, and the details of the transaction. The form 1008 summarizes key information regarding the overall risk assessment of the mortgage – that is, the loan purpose, proposed monthly payments, FICO score, and debt ratios.

If the information presented in the LE, 1003, and 1008 sufficiently matches the information on the *Statement of Lender*, HCD staff will send a Conditional Approval letter to the homeowner, with a copy to lender and escrow. The terms of the existing loan and the proposed new loan are reiterated in the letter. The borrower is not to sign loan documents until HCD has issued final approval upon review of the Closing Disclosure, the Promissory Note, and Lender's Instructions to Escrow. In this letter, Escrow is instructed to prepare a Request for Copy of Notice of Default on behalf of the County to be recorded concurrently with the Deed of Trust for the new loan. If there is not a recorded Performance Deed of Trust (DOT) on behalf of the County, then one must be created to be recorded concurrently upon close of the transaction. If there is a Performance DOT recorded then upon County's approval to the terms of the transaction, then the County can agree to subordinate the County Performance Deed of Trust to be in a junior lien position to the new Deed of Trust recorded for the new mortgage.

a) Rate and Term Refinance Only

If the purpose of the refinance is to lower the interest rate and/or adjust the loan term, the homeowner shall be permitted to refinance given the new loan amount is equivalent to the balance of the existing mortgage plus reasonable closing costs.

As an example, the current maximum allowable price of a 2-bedroom unit in the Moderate-income category is \$385,900. The amount of the new loan must:

1. not exceed \$374,323 (97% of \$385,900), and
2. represent the current balance of the existing mortgage plus closing costs.

b) Cash-out Refinance

The homeowner may take out cash up to a 97% loan-to-value ratio based on the original purchase price of their home. For example, if the original purchase price was \$200,000 and the mortgage balance is now \$145,000, then the owner is allowed to take out up to \$49,000 for a loan amount of up to \$194,000 (97% of \$200,000). The County will allow the property owner to regain access to the same amount of capital they have put back into the property over time. Under special circumstances, on a limited case-by-case basis, HCD may consider additional cash out requests that exceed a 97% loan to value based on the original purchase price.

Approval of cash-out refinance applies only if all of the following conditions are met:

1. The existing loan being refinanced is either an adjustable rate loan, or an interest-only loan converting to an adjustable rate after the fixed rate period expires, or otherwise known as a subprime loan. The term of the new loan is either 30 years, 20 years or 15 years with a fixed rate, and fully amortized monthly payments.
2. The new loan would not otherwise be approved by the lender if the required debt was not paid off.
3. All debt paid off is done through escrow and must be shown on the Closing Disclosure, and a majority of the following conditions apply:
 - a. The borrower must bring in additional cash to close the transaction as per terms of the loan approval,
 - b. The new loan to value ratio does not exceed 80% of the current resale restricted value,
 - c. The borrower has not previously refinanced and taken cash out,
 - d. The new loan has Private Mortgage Insurance (PMI), and
 - e. The new loan payment does not increase substantially more than 10% of the existing loan

A cash-out refinance will be denied if the homeowner's current loan-to-value ratio exceeds 80% of the present Maximum Resale Restricted Value. In such case, the homeowner will only be allowed a rate and term refinance, given they are in compliance with their covenant.

c) Buyout of Spouse or Partner on Title

A cash-out refinance may also be approved for the purpose of buying out another person on title's equity interest in the property. All of the financing criteria for Purchase Financing will apply in addition to the following conditions:

1. The loan-to-value (LTV) of the new loan cannot exceed 97% of the current resale restricted price.
2. The party that is bought out must be removed from the property deed during escrow.
3. All funds must be transferred directly through escrow.
4. If the parties are married, then an Inter-Spousal Transfer Deed must be recorded concurrently with the lender's new First Deed of Trust.
5. If the parties are not married, then a Quitclaim Deed must be recorded concurrently with the lender's new First Deed of Trust.

d) Subordination Requests

Generally, the County will not approve subordination requests if/when:

- the County financing is deferred or only partially amortized, and the borrower proposes to take cash out of the transaction; or
- the subordination is to a new deed of trust securitizing a mortgage which places the County loan or interest in the property at significantly greater risk; or
- the borrower is not in full compliance with the County's affordability requirements.

e) Loan Modification

All negotiations are carried out between the bank and the homeowner. Loan modification documents are sent directly to the homeowner for signature and notary. The County may obtain Third-Party Authorization to help facilitate the modification process, but there is no title company or escrow involved as the bank is modifying their loan to new and better terms for the homeowner. Where there is a Performance Deed of Trust on the property, the County may need to subordinate to the bank's modified deed of trust. In this case, the homeowner will forward the original documents back to the bank in an overnight return envelope to be provided by the bank. If there is not a Performance Deed of Trust recorded against the property, the property owner is to sign and execute the County's Performance Deed of Trust and record it after the bank's modified deed of trust is recorded.

III. Inclusionary Housing Program Qualification Process

In an effort to streamline the qualification process, HCD has implemented review and control mechanisms to be used at the front-end to quickly identify those eligible and ineligible for the program. Mechanisms include: a *Prequalification Questionnaire* each prospective applicant must complete prior to being considered for the application process, a restructured application intended to be more user-friendly and ensure greater accountability from the applicant, and a mandatory initial consultation between the applicant and HCD staff.

A *Prequalification Questionnaire* was created to assist in making an informed decision when identifying Lottery participants as prospective Buyers, consistent with eligibility criteria. Questions elicit a yes or no response pertaining to the most critical requirements for eligibility. To efficiently allocate affordable housing, HCD must ensure the applicant's household size falls within the minimum and maximum number of persons required for the affordable unit. In addition, all household members included within a County HCD Homeownership application to purchase a single affordable unit must currently be living together for period of six (6) months prior to submitting an application due to income calculation.

Homeowners and their agents are encouraged to submit *Prequalification Questionnaires* to HCD. As determined by the HCD Lottery ranking, HCD staff contacts the person in first position to arrange a consultation meeting to discuss the application, process, and eligibility requirements. The initial consultation usually takes approximately 60 minutes in which the *Home Ownership Application* is explained page-by-page, requirements for eligibility are explained, and questions can be answered. All persons planning to go on title will need to be in attendance.

All household members over the age of 18 are required to complete and submit a *Home Ownership Application*, whether or not they will be named on title or on the loan. In exchange for receiving the benefit of an extra occupant (household size to number of bedrooms ratio) and a higher income-cap (with the extra person in the household), the income and assets of all occupants over the age of 18 must be included, as any occupant 18 years or older can be put on title.

A. Prioritization

1. Purpose: Establish a selection process that gives persons who live and/or work within the South Coast Housing Market Area (HMA) preference over other persons to rent or purchase deed-restricted lower-, moderate-, and workforce-income housing units located in the South Coast HMA and to ensure that marketing efforts for all new housing projects effectively promote and publicize the availability of the new deed restricted housing units to persons who live and/or work within the South Coast HMA.¹
2. Applicability:
 - a. Projects subject to the Prioritization. The program shall apply to new housing development projects that include or satisfy all of the following criteria:
 - i. Rental and/or for-sale units;
 - ii. Five (5) or more primary dwelling units;
 - iii. Deed-restricted affordable housing units (i.e., affordable to lower-, moderate-, and workforce-income households); and
 - iv. Located in the unincorporated area of the South Coast HMA.
 - b. Exceptions. The prioritization shall not apply to the following new housing development projects:
 - i. Housing authority or other non-profit housing development projects that have financing or funding-related tenant requirements that conflict with this program, as determined by County CSD.
 - c. Duration of Applicability.
 - i. Deed-Restricted For-Sale and Rental Affordable Housing Units

1. For-Sale Affordable Housing Units – Deed-Restricted
 - a. The prioritization shall apply to the initial sale and subsequent resale of deed-restricted lower-, moderate- and workforce-income housing units for the duration of the affordability term.
2. Rental Affordable Housing Units – Deed-Restricted
 - a. The prioritization shall apply to the initial rental and subsequent rental of deed-restricted rental housing units for the duration of the affordability term.
3. Eligibility:
 - a. Residency and Workplace Eligibility Criteria for all Housing Units. All applicants for deed-restricted units in the South Coast HMA should satisfy at least one of the following residency and workplace requirements:
 - i. Persons who work in the South Coast HMA,
 - ii. Persons who live in the South Coast HMA,
 - iii. Persons who have been hired to work in the South Coast HMA.
 - b. Income Limit for Deed-Restricted For-Sale and Rental Affordable Housing Units. Applicants for affordable housing units cannot earn an annual income that exceeds the income limit (i.e., lower-, moderate-, or workforce-income) of the unit type they select to purchase or rent.
4. Application Submittal, Review, and Ranking:
 - a. Application. Persons who wish to initially rent a deed restricted rental unit within a new rental project or purchase any deed-restricted unit at any time within any project shall submit a *Lottery Application* to County HCD that, in part, documents their residency, employment, and income level. Persons who wish to subsequently rent a deed restricted rental unit after the initial occupancy, shall submit a *Rental Application* to the Owner’s designated property management company documenting their residency, employment, and income level.
 - b. Application Review and Determination of Eligibility. County HCD or a project Owner’s designated property management company will review applications for deed-restricted units for completeness and determine if an applicant is eligible for the program, including verifying an applicant’s residency, employment, and income level.
 - c. Waiting List. County HCD will sort and place eligible applicants on a waiting list for a new project according to the prioritization established through a Lottery drawing conducted by HCD. Lottery results will be published on the HCD website. Subsequent applicants interested in the rental or the purchase of a deed restricted unit, after its initial occupancy, will be included within the County’s Interest List Database according to the date and time that they submitted an *Interest List Sign up form* to County HCD. Subsequent ownership

applicants will be selected through an HCD Lottery process and subsequent rental applicants will be selected by the project Owner's property management company. An applicant's registration within the Interest List Database must be renewed every six months in order to stay current.

B. Certification Process

The application certification process is done through two levels of review. The first level is performed by an HCD staff member assigned to independently verify income, employment, taxes, and lawful residency among all other criteria for program eligibility. Upon review and signature by HCD staff, the application file is presented to the Certification Committee for the second and final level of review.

The Certification Committee shall determine whether the applicant meets program eligibility requirements based on the documentation verified by HCD staff. The Committee shall rely on the staff certification summary and supporting documentation but may request clarification or additional documentation prior to making a final determination.

The purpose of the Certification Committee is to review the full application packet for each applicant. If a *Homeownership Application* includes a request from the applicant for an exception to the IHP guidelines, the committee may evaluate any compensating factors that may warrant an exception and potentially allow for such an exception, on a case-by-case basis. The Committee shall approve or deny applications, and their decisions are documented in meeting minutes. The Certification Committee shall consist of three (3) members, comprised of representatives designated by the following County Departments: County Executive Office, Auditor-Controller, and General Services Real Property.

Exceptions to the IHP guidelines may be considered if:

- Strict application of the rules would cause unintended and documented hardship for the applicant; or
- The exception does not otherwise undermine program fairness; or
- The exception does not create precedent inconsistency with policy.

The complete physical file must be presented to each member of the Certification Committee for review at least 2 working days prior to the certification meeting. This includes electronic copies of the following:

1. Certification Summary Sheets
2. Home Ownership Application(s)
3. Financial Worksheet
4. Estimated 1003 mortgage loan application

5. Estimated 1008 mortgage underwriting summary
6. The most recent two years' worth of tax returns for self-employed applicants
7. Summary Sheets for each section (Tax, Employment, Financial, Identification, Search, and Variance if the unit's income category was adjusted by HCD to the next income category)
8. Financial Worksheets in Excel file (Results, Worksheet, Disbursements, Deposits)

HCD compares loan documents with the *Home Ownership Application* before escrows are able to close and will disqualify applicants if inconsistencies are found between the *Home Ownership Application* and the final bank loan application.

C. Ownership Participant Qualifications: For-Sale Projects

In order to be eligible to purchase an affordable unit, HCD must certify that the applicant meets the following criteria:

1. The applicant's combined household gross income falls below the maximum allowable household income for the housing unit under consideration. All members of a household that are at least 18 years of age are considered applicants for purposes of applying for an affordable housing project.
2. The household's assets cannot exceed one-half ($\frac{1}{2}$) of the maximum allowable sales price of the housing unit under consideration-
3. Applicants must be first-time homebuyers [applicants cannot have owned or held interest in any improved residential real estate during the three (3) years prior to submitting a *Home Ownership Application*. This consideration includes mobile home ownership if the owner of the mobile home owns the space in which the mobile home is parked. If the mobile homeowner pays rent for the space, then that person may be considered a first-time homebuyer.
4. At least one member of the household must be employed full-time currently, and for the two years preceding submittal of an application. Full-time is defined as working an average of 35 hours or more a week. (See below for exceptions that may apply.)
5. The applicant's household must meet the minimum household size requirements for the housing unit in consideration and must be within any maximum size requirements that have been - approved by the County. The minimum household size must be equal to the number of bedrooms in the housing unit; maximum household size is calculated as two persons per bedroom, plus an additional person. See chart below.

NUMBER OF BEDROOMS	MINIMUM OCCUPANCY	MAXIMUM OCCUPANCY
Studio	1	2
1	1	3
2	2	5
3	3	7
4	4	9

6. The applicant's household, as identified in the *Home Ownership Application*, must be living together as a Housekeeping Unit for a period of at least six (6) months prior to submitting an application. Households must provide documentation to verify the household composition claimed at the time of certification.
7. Divorce proceedings in progress are a temporary condition where the ultimate outcome of income and asset allocation cannot be defined until the courts make their determination. Therefore, all divorce proceedings must be finalized before approval can be granted for a *Home Ownership Application*.
8. Applicants must demonstrate they have sufficient funds available to pay the minimum 3% down payment.
9. Applicants must be able to demonstrate financial independence during the two (2) years prior to submitting a *Home Ownership Application*. (See [Financial Independence](#) guidance.)
10. Applicants must provide proof of residency in Santa Barbara County for at least six (6) months prior to, or proof of employment in Santa Barbara County at the time of submitting a *Home Ownership Application*, unless South Coast HMA prioritization applies pursuant to §46A-6(d)(7)(d)(iii).
11. Applicants must have the right to permanently reside in the United States and provide proof such as a birth certificate, Certificate of Naturalization, or a Permanent Resident Card.
12. Applicants must have a FICO score of at least 620.
13. Applicant must have a total Debt to Income Ratio not to exceed fifty percent (50%)

Exceptions to Full-Time Employment Requirement:

An exception may be made if an applicant meets all other criteria and falls into one of the following elements:

- a. Applicant receives Social Security Disability Insurance (SSDI) which provides monthly payments to people who have a disability that stops or limits their ability to work.
- b. Applicant is retired, with a steady income (i.e. Social Security benefits or pension).

Exceptions to First Time Homebuyer Requirement:

- a. A displaced homemaker, i.e. has not worked full-time in the labor force for at least one (1) year, but worked primarily without remuneration to care for a household, is unemployed or underemployed, is experiencing difficulty in obtaining or advancing employment, and, while a homemaker, owned a principal residence with their previous spouse; or
- b. Single parent (unmarried or legally separated) who is pregnant or have one or more minor children for whom they have custody or joint custody, and, while previously married, owned a principal residence with their spouse; or
- c. Own or owned a principal residence during the previous three (3) years not permanently affixed to a permanent foundation in accordance with local or other application regulations; or
- d. Own or owned a principal residence during the previous three (3) years not in compliance with building or other applicable codes, and which cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

D. Rental Projects

HCD administers affordable housing programs that include affordable rental housing and is responsible for enforcement of covenants for affordable rental units in the County. Recorded covenants dictate whether HCD or the property management company conducts certifications for eligibility, as defined within the rental project's recorded Agreement to Provide Affordable Housing and Restrictive Covenant with the County of Santa Barbara (ATP). In the case the property management company is responsible for certifications, a status report of tenants occupying the units is required at least annually, or more frequently if requested in writing with notice as defined in the ATP from HCD. Owners of restricted affordable rental housing developments must file a status report with HCD by March 1 of each year demonstrating compliance with provisions set forth in the ATP for the preceding calendar year.

Tenants are required to re-certify their eligibility by submitting to their property management company a *Self-Certification Form* to continue renting at an affordable rate either annually or once every three years as defined in the ATP as defined within the County's deed restriction. In the event that recertification of a household occupying a restricted unit determines the income of the household has increased since the prior certification and exceeds the maximum allowable income, then one of two options may occur, depending on the terms of the deed restriction:

1. The owner shall rent the next available unit on the subject property to a qualifying household at no more than the Maximum Monthly Rent as provided by HCD. The new unit becomes a restricted unit under the covenant and the unit occupied by

the over-qualifying household shall no longer be considered a restricted unit, and the owner may increase their rent to market-rate once the next restricted unit has been rented at an affordable rate. *OR*

2. The tenant who no longer qualifies under the program guidelines will be given 90 days to relocate upon determination of their certification results.

Refer to the Agreement to Provide Affordable Housing and Rental Restrictive Covenant for each development to determine the appropriate method.

1. Participant Qualifications: Rental

For participation in the affordable rental program, the applicant must meet the following criteria:

- a) Applicants may not currently own improved residential real estate or another housing unit at the time of application. This consideration includes residential real estate owned and used for business purposes, and mobile home ownership.
- b) The applicant’s combined household gross income must fall below the maximum allowable household income for the housing unit under consideration. All members of a household who are at least 18 years of age are considered applicants for purposes of applying for an affordable housing project and their income will be included. HCD will certify all adult household members (over the age of 18) in calculating total household income.
- c) At least one member of the household must provide proof of residency or proof of full-time employment in Santa Barbara County at time of application.
- d) At least one member of the household must be employed full-time. Full-time is defined as working an average of 35 hours or more a week. (See below for exceptions that may apply.)
- e) The applicant’s household must meet the minimum household size requirements and must be within the maximum size requirements. The minimum occupancy limit is equal to the number of bedrooms in the housing unit. The maximum occupancy limit is equal to twice the number of bedrooms in the home plus one person. For example, a 2-bedroom unit requires a minimum of 2 persons and allows up to a maximum of 5 persons [calculated as $(2 \times 2) + 1 = 5$].

NUMBER OF BEDROOMS	MINIMUM OCCUPANCY	MAXIMUM OCCUPANCY
Studio	1	2
1	1	3
2	2	5
3	3	7
4	4	9

- f) The value of a household's liquid assets cannot exceed one-half ($\frac{1}{2}$) of the maximum allowable sales price of a housing unit with the same bedroom count and from the same income category under consideration, had it been offered for sale as a Resale Restricted unit.
- g) All household members must provide proof of the right to permanently reside in the United States.
- h) Applicants must be able to demonstrate financial independence for at least one (1) year prior to submitting an application. (See [Financial Independence guidance](#).)
- i) Applicants must be able to lease the unit on their own; applicants may not have co-signors or guarantors. However, if the property management company is willing to take a guarantor or co-signor, then HCD shall not intervene.

Exceptions to Full-Time Employment Requirement:

An exception may be made if the applicant meets all other criteria and falls into one of the following elements:

- a. Applicant receives Social Security Disability Insurance (SSDI) which provides monthly payments to people who have a disability that stops or limits their ability to work.
- b. Applicant is retired, with a steady income (i.e. Social Security or pension benefits).
- c. Applicant is employed part-time, with a steady income while attending school full time with financial aid [i.e. Post-9/11 GI Bill (Chapter 33)].

Student Eligibility (Applies only to Rental Units)

Regulatory Agreement and Declaration of Restrictive Covenants (Covenants) or other recorded document restricting the income and rent at a property may use regulations for student eligibility from the [US Department of Housing and Urban Development's regulations](#) concerning student eligibility for Section 8 housing. However, the County will consider the following for students that are attending accredited institutions of higher education:

- Dependent Students: The parents or legal guardians of the student are low income and claims the student on their tax returns. The guardian's income will be used to qualify the student for housing.
- Independent Students: The student is not claimed on their guardian's tax returns, and the student can meet the minimum income requirements as defined herein.
- Financial assistance from the parent(s) in excess of tuition will be counted as income of the student.

If the student is eligible and the parents are not, then the student is only eligible for an IHP unit if financial independence is demonstrated. This can be demonstrated by:

- Reviewing previous addresses within the last year to ensure that the students and parents reside in different households.
- Reviewing income tax statements within the last year to determine whether a parent or guardian has claimed the student as a dependent.

Financial assistance for the student in excess of tuition will be counted as income unless the student is over the age of 23 years with dependent children.

E. Financial Independence

The governing party, whether the owner or HCD, shall ensure applicants meet HCD's financial independence requirement for at least the past two years in order to be eligible for affordable ownership units and at least one year for affordable rental opportunities.

Definition

Financial independence is defined as having sufficient income to self-support the cost of living through one's own earned income, without assistance or support from others. Earned income is defined as money earned through a person's own employment, or other sources of income such as social security, pension, or disability benefits. As a measure of financial independence, the applicant must demonstrate they were not claimed as a dependent on another person's tax return in the previous two years for ownership units and/or the previous year for rental units.

HCD will not allow co-signers or guarantors on the purchase money loan or lease agreement. Any deposits into accounts in the preceding six (6) months may be used to project the annual compensation. The inclusion of any additional compensation together with employment earnings shall not exceed the HCD-established Maximum Allowable Household Income.

Lump-sum gifts or inheritances as well as regular contributions or gifts received from parents, relatives, associates, friends, etc., are included in the calculation of income. That portion of scholarships and grants provided for general living expenses, transportation, and miscellaneous personal expenses are also included as income.

Calculation of Income

The Income and Price Guidelines are based on the median family income of a household size of four (4) in Santa Barbara County at the time of application. HCD will review applications to determine whether the applicant's combined gross annual household income falls within the income limit of the corresponding income category designated for the desired unit. The determination of income is not based on last year's gross income, nor the average of more than one prior year's income, but on a projection of the annual

household income potential based on current earning statements. For self-employed applicants, HCD may average the prior 2-years of earnings to project income. Self-employed applicants are required to submit one year’s worth of financial statements.

1. How to Annualize Gross Earnings

Convert periodic wages to annual income using the following methods. Although the two methods should arrive at a comparable number, use the greater of the two. However, do not use the Method B figure if the YTD gross earnings are only representative of 2 months or less.

Method A – Last 6 months’ history:

1. Income earned through employment: List gross earnings from each consecutive paycheck from the last 6 months preceding time of application, from each source separately. Use the number of paychecks according to the table below depending on pay frequency from the employer. Then, multiply by 2 in the Gross Earnings Annualization box to project annual income.

Pay Frequency	Biweekly	Bimonthly	Weekly	Monthly
# of successive paychecks to use	13	12	26	6

2. Monthly Social Security Benefits: List the monthly gross earnings from the last 6 months, then multiply by 2 to project the earnings for an entire year.

Method B – Year to Date (YTD):

1. Income earned through employment: List the YTD gross earnings figure from the most recent paycheck.
2. Determine the number of pay periods this YTD figure covers.
3. According to the pay frequency schedule below, take the total number of pay periods in a year, and subtract the number of pay periods the YTD figure encompasses. The result is the number of remaining pay periods in a year.

Pay Frequency	Biweekly	Bimonthly	Weekly	Monthly
# of paychecks in a year	26	24	52	12

4. Multiply the number of remaining pay periods in a year by the average gross earnings.
5. Average gross earnings: YTD gross earnings divided by number of pay periods

Other Miscellaneous Deposits

Evaluate all deposits over \$300 for affordable rental units and \$500 for affordable units that are for sale. Miscellaneous deposits into banking accounts that cannot be explained in writing and justified with backup documentation by the applicant shall be included as income. List all unexplained deposits in the preceding 6-month period and multiply by 2, to annualize the number. This approach takes the applicant's previous history into consideration and accounts for the potential of the deposits repeating in the next 6 months. This annualized number will be included in the applicant's annual income calculation.

2. Determining Income

In addition to earned income, loans or gifts from relatives, associates, or friends, regardless of the terms, are considered financial assistance and may be included as income. If there are repeated deposits into the account from relatives, associates, or friends, then include deposits as income. If the deposits are truly loans (the amount of deposit is complemented with a withdrawal for the same amount within twelve months), do not include as income.

Income Inclusions

- The gross amount of wages, salaries, overtime pay, commissions, fees, tips, bonuses and other compensation for personal services. Gross income means before any payroll deductions, including deferred compensation or retirement contributions such as 401K or 403b.
- Net income from the operation of a business, profession, or active farming. HCD staff will not make allowances for depreciation of capital assets in determining the net business income. HCD also reserves the right to review additional business expenses and to exclude any which are not likely to continue or are unnecessary for business operations as determined by the HCD Certification Committee.
- Interest, dividends, and other net income of any kind from real or personal property (expenditures for amortization of capital indebtedness and an allowance for depreciation of capital assets shall not be deducted to determine the net income from real or personal property).
- The gross amount of periodic payments received from Social Security for all household members, regardless of age.
- The gross amount of periodic payments from annuities, insurance policies, retirement funds, pensions, disability, or death benefits and other similar types of periodic receipts, including a lump-sum payment for the delayed start of a periodic payment.
- Payments in lieu of earnings, such as unemployment, worker's compensation, and severance pay.

- Periodic allowances such as alimony and separate maintenance, child support payments received, housing allowances received, and regular contributions or gifts received from persons not residing in the dwelling.
- That portion of scholarships and grants provided for general living expenses, transportation, and miscellaneous personal expenses.
- Lump-sum assets (inheritances, etc.) received in the previous two years prior to application unless the applicant is disabled or retired.

Income Exclusions

- Amounts that are specifically for (or in reimbursement of) the cost of medical expenses. Amounts that are expended and designated for large and continuing medical expenses of a member of the household are excluded.
- Lump-sum settlements for personal or property losses.
- That portion of scholarships provided for tuition, fees, books, equipment, materials, and supplies.
- Earned Income from the employment of children under the age of 18.
- Payments received for the care of foster children.
- The value of the allotment provided to an eligible household for coupons under the Food Stamp Act of 1977.
- The income of a live-in aide, defined as a person who resides with an elderly, disabled, or handicapped person and is determined to be essential to the care and well-being of the person who is not obligated to support the person, and would not be living in the home except to provide supportive services.

3. Determining Assets

In general terms, an asset is cash, or a non-cash item that can be converted to cash.

Asset Inclusions

- Equity in automobiles will be included in consideration of assets. Copies of all owned auto registration and related loan documents must be included in the *Homeownership Application*.
- Balances of savings accounts and checking accounts.
- Stocks, bonds, savings certificates, money market funds, and other investment accounts.
- Cash value of trusts available to the household.
- Physical, monetary, and real property assets, which, although they may be owned by more than one person, allow unrestricted access by the applicant.
- Lump sum receipts, such as inheritances, gifts, capital gains, lottery winnings, insurance settlements and other claims.

- Cash value of life insurance policies.
- Assets disposed of for less than fair market value (as determined by the HCD Staff) for two (2) years preceding certification or recertification.
- Contributions to non-IRS qualified retirement/pension funds that can be withdrawn without retiring or terminating employment.
- Any asset valued at or above \$2,500 and disposed of in the six (6) months prior to application.

Asset Exclusions

- IRA, Keogh, State 529 Plans, and similar retirement or education savings accounts, if withdrawal would result in a penalty.
- Assets not accessible to the household and that do not provide any income for the family.
- Assets that are a part of an active business (tools of the business trade) or farming operation. Residential real estate owned by the applicant would require the inclusion of the Real Property within the assets of the applicant.

Sample Rental Financial Worksheet for Processor

Affordable Housing - Rentals - Financial Worksheet							
Date:	2/11/2010	Property Address:		Address of Unit		Development	
Applicant Name:	Last Name, First			» ___ Bedroom, ___ Household Size		Income Category	
GUIDELINES:							
Restricted Rental Price		Allowable Income		Asset Limit			
\$920		\$39,400		\$67,600			
INCOME:							
I. » Employer Salary - Biweekly							
Date	Gross Earnings						
2/18/10	\$ 1,042.47	*Gross Earnings Annualization					
2/4/10	\$ 1,123.20						
1/21/10	\$ 1,160.06	13 pay periods \$ 15,170.10					
1/7/10	\$ 1,123.20	multiplied by 2					
		=Total Projected Annual Gross					
12/24/09	\$ 1,123.20	\$ 30,340.20 → \$ 30,340.20 •					
12/10/09	\$ 1,309.23	YTD (4 pay periods) \$ 4,448.93					
11/25/09	\$ 1,165.32	22 more pay periods \$ 24,469.12					
11/12/09	\$ 1,239.03	=Total Projected Annual Gross					
10/29/09	\$ 1,181.12	\$ 28,918.05					
10/15/09	\$ 1,154.79						
10/1/09	\$ 1,128.47	II. » Other Misc Deposits					
9/17/09	\$ 1,319.76	Date	Deposit Amt.				
9/3/09	\$ 1,100.25	1/10/10	\$ 500.00				
	\$ 15,170.10 *	1/26/10	\$ 350.00				
			\$ -				
			\$ -				
» Previous Year Income based on taxes			\$ 850.00				
		multiplied by 2					
2009	\$ 29,333.00	(Annualized) \$ 1,700.00 → \$ 1,700.00 •					
		TOTAL ANNUAL INCOME				\$ 32,040.20 •	
		ALLOWABLE INCOME				\$39,400	
ASSETS:							
I. » Checking							
	Institution	Acct #	Balance	Date	Total Value		
	XYZ Bank	12345	\$ 2,503.11	1/31/10	\$ 2,503.11		
II. » Savings							
	XYZ Bank	12345	\$ 3,000.00	1/31/10	\$ 3,000.00		
III. » Car (KBB Fair Trade-in Value)							
	2001 Honda Accord LX Sedan 4D, 100,000 Miles					\$ 2,750.00	
		TOTAL MARKET VALUE OF ALL ASSETS				\$ 8,253.11	
		ASSET LIMIT				\$67,600	
[Not included in total assets]	IV. » Investments						
	401k		\$ 10,235.38	1/31/10	-		

4. Appeals Procedures

If an application is denied, the applicant may submit an appeal to the Director of the Community Services Department. The individual appealing must be the person applying for the housing unit. Appeals to denials will only be considered when HCD's calculation

of income is in question. The appeal must be based on the original submittal to HCD and must demonstrate a factual error in the calculation of income. Appeals are not considered for inconsistent information, omitted documentation, falsified information, or concealed information regarding residency, assets, income, or household information. The appeal must be in writing (electronic/e-mail or hard copy/mail) and received within ten (10) business days of the date the denial was issued. Appeals can be sent to hcd@countyofsb.org or via mail:

County of Santa Barbara – Housing and Community Development Division
Community Services Department | Engineering Building, 2nd Floor
123 E. Anapamu Street, Santa Barbara, CA 93101

Upon timely receipt of the appeal, the Community Services Department Director will acknowledge receipt and will communicate the final decision within ten (10) business days. All appeal and/or disqualification decisions are final.

IV. Monitoring for Compliance

HCD has established a series of monitoring and reporting processes to mitigate risks and preserve the existing stock of affordable housing. To assess and maintain homeowner and renter compliance, HCD conducts investigations where warranted, responds to alleged violations and complaints, and ensures residents' timely completion and return of the mandatory *Annual Survey* (for ownership units) or *Self-Certification* (for rental units).

A. Surveys and Self-Certifications

HCD mails an *Annual Survey* to all residents of affordable units by March 1st of each year to affirm compliance in the previous calendar year. Homeowners are required to return the *Annual Survey* or *Self-Certification*, signed under penalty of perjury, which may include the owner's/renter's statement that they have occupied the property full-time and complied with all provisions of the covenant. The purpose of the *Annual Survey* and *Self-Certification* is to ensure compliance with the affordable housing Restrictive Covenants. Based upon information or complaints of suspected violations of the covenant, HCD will investigate the alleged violations and, if necessary, enforce the provisions of the covenant. The County may collect penalties in the form of financial fees and fines to cover damages from violating the covenant.

The *Annual Survey* component of the compliance program will be conducted in two phases:

1. Survey forms will be mailed to each homeowner at the situs address of the affordable unit as well as the mailing address indicated in County Assessor

records, if different. The survey must be completed and returned within 3 weeks (21 days) of receipt.

2. Second, homeowners who fail to return a completed survey within 21 days of receipt will receive a second notice via certified mail with a Do Not Forward instruction. The same deadlines apply to the second mailing. At this point, the Annual Survey can also be emailed to the homeowner if there is an email on file.

As part of the *Annual Survey*, the County will request a status on owner occupancy. In the event of an absent owner, an explanation must be provided to clarify whether or not absenteeism was attributable to hardship. If hardship cannot be demonstrated, the County will seek recourse for any damages incurred as a result. Pursuant to the Resale Restrictive Covenant, the County reserves the right to request additional materials and documentation necessary in making a determination of any affordable home ownership violations.

B. Other Monitoring

When HCD is notified of a refinance, HCD immediately conducts a search of the official County Clerk-Recorder Records to ensure the homeowner is in compliance with the Inclusionary Housing Guidelines. The homeowner and lender are asked to complete a *Statement of Lender* form specifying the reason for refinance, the terms of the current loan(s), the terms of the proposed loan, and the desired lender's contact information. The form is available on HCD's webpage. This information is compared to a Title search to ensure all loans are disclosed and that the refinance will put the owner in a better financial position. If necessary, the Monitoring Officer will conduct a site visit to the property to ensure it is owner-occupied.

HCD's representatives have the right to make site visits at reasonable times to assess program compliance. Site visits are to be conducted annually for at least 10% of the total number of affordable units. These are normally conducted at the same time as there is a required site visit in that development.

C. Complaints

County staff is responsible for conducting investigations when the County is notified of an alleged violation by mail, phone, or in person. Receipt of complaints will be acknowledged within five (5) business days.

D. Owner/Renter Status

At any time, HCD reserves the right to request the property owner/renter submit a status report of occupancy. The owner/renter shall comply with such request and shall certify

their status report within ten (10) business days of receipt of the request. In the case of owner/renter absenteeism, this report would include an explanation of any rental, vacancy, or other violation, which may have occurred over a range of time specified by HCD. The owner/renter also agrees to cooperate with any action the County takes to monitor compliance with all conditions and requirements of the covenant including occupancy requirements.

V. Conflict Resolution

Homeowners of affordable units may wish to dispute various rules and regulations set by the homeowners' association (HOA). Most affordable housing units are a part of a larger development governed by a HOA with certain rules and regulations outlined in the association's Covenants, Conditions, and Restrictions (CC&Rs). These documents are disclosed to buyers by the seller as part of the HOA package at the time of sale and are legally enforceable by the homeowner's association. Issues homeowners may have pertaining to the bylaws/CC&Rs are outside of HCD's scope and jurisdiction as HCD is not a party to the CC&Rs. Additionally, HCD is not a court of law that can adjudicate disputes between private parties. Generally, an elected volunteer Board of Directors for the association has the authority and responsibility of CC&R enforcement. The HOA may employ a property management company for collection of dues, maintenance of association records and operating budget, meeting minutes, maintenance of the common area, among other things at the direction of the Board of Directors. HCD does not offer mediation services, but can point to the following resources:

The Conflict Solutions Center provides consultation, training, and mediation services for a range of disputes including landlord/tenant, homeowner association, roommates, business, neighborhood, consumer/merchant, construction, real estate, etc.

Conflict Solutions Center
1528 Chapala Street, Santa Barbara, CA 93101
Phone: (805) 963-6765
www.cscsb.org

The Rental Housing Mediation Task Force, operated by the City of Santa Barbara, is available as an information resource pertaining to landlord/tenant rights, mediation services to resolve rental housing disputes, and provide landlord/tenant assistance. This resource is available free of charge for rental properties located in the City of Santa Barbara, Carpinteria, Goleta, and the unincorporated areas of Santa Barbara County.

City of Santa Barbara
Community Development Department, Housing and Redevelopment Division

630 Garden Street, Santa Barbara, CA 93101

Phone: (805) 564-5420.

<http://www.santabarbaraca.gov/services/home/rhm/default.asp>

VI. Conflict of Interest Policy

No persons who have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds hereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter may obtain a financial interest or benefit from a County of Santa Barbara affordable housing activity.

All persons who exercise or have exercised any functions or responsibilities with respect to activities assisted with the County of Santa Barbara's Affordable Housing Program or who are in a position to participate in a decision making process or gain inside information with regard to these activities, must have their County Ownership application or County Rental application income certification prepared by an independent third party, at their own expense. Individuals covered by the previous sentence include, but may not be limited to the following:

1. Elected and appointed staff officials of the County of Santa Barbara, including the Board of Supervisors, the Planning Commission, their employees and family members, and the equivalent for the Capital Loan Committee and the Affordable Housing Certification Committee.
2. Employees and family members of the County Community Services Department's Housing and Community Development division and any other office which may take on a role with respect to the affordable housing units such as the Office of the Auditor-Controller, County Counsel, Planning and Development, and County Executive.

In addition, no owner, employee, agent, consultant, or officer of a developer, whether private, for profit, or non-profit, or immediate family members of same, of a project assisted with County of Santa Barbara Affordable Housing Program funds may occupy a County-assisted affordable housing unit in the project.

Any of the above, who have received benefits through the County of Santa Barbara's Affordable Housing Program prior to their election, appointment, or employment, shall not be subject to this conflict-of-interest provision. The County reserves the right to approve exceptions.

Definitions

- **1003 Uniform Residential Loan Application (1003):** used to evaluate and determine creditworthiness when applying for a home loan
- **1008 Uniform Underwriting and Transmittal Summary (1008):** used to summarize key information utilized in the comprehensive risk assessment of the mortgage loan and the final underwriting decision.
- **Agreement to Provide Affordable Housing (ATP):** a recorded agreement that binds a property owner to maximum sales price requirements for the time period required by law and county code
- **Agreement to Provide Affordable Housing and Rental Restrictive Covenant:** a recorded agreement that binds a property owner to maximum sales price and maximum rental price requirements for the time period required by law and county code
- **Area Median Income (AMI):** the median household income of a geographic area of the state, as defined in California Health & Safety Code Section 50093, as that section now appears and may be amended or renumbered from time to time, and revised annually by the State of California Housing and Community Development Department
- **Certification Committee:** a 3-member internal committee composed of designated County staff from the CEO's, Auditor Controller's, and General Services Real Property's departments to whom HCD recommends the approval of an Inclusionary Housing Homeownership application.
- **Conditions of Approval:** legally binding requirements imposed by local agencies on development projects, ensuring compliance with zoning codes, Comprehensive Plans, County Codes, or other ordinances.
- **FICO:** Fair Isaac and Company, A FICO® score is a particular brand of credit score that helps lenders determine how likely you are to pay back a loan
- **HCD:** Housing and Community Development division of the Community Services Department of the County of Santa Barbara
- **Home Ownership Application:** application provided by County HCD to an applicant to the Inclusionary Housing Program used to determine a household's eligibility to purchase a deed restricted unit
- **Housekeeping unit:** a dwelling occupied by one or more persons living together as a stable, non-transient, interactive group sharing common access to, and use of, all living, kitchen, and eating areas.
- **Lender's Instructions to Escrow:** formal, written, and precise directives provided by a mortgage lender to an escrow officer, outlining the exact conditions, documentation, and financial terms required to close a loan and release funds

- **Owner Request to Refinance form:** an HCD form submitted by an Owner to HCD staff describing the terms of the new mortgage loan for which they would like to apply. Upon receipt and if approved, HCD staff would communicate with the Owner that the new loan terms are acceptable under the Inclusionary Housing Program
- **Performance Deed of Trust (DOT):** a security instrument recorded against a property to ensure the borrower fulfills specific, non-monetary contractual obligations, such as maintaining affordable housing restrictions
- **Positive equity:** when a deed restricted home's value exceeds the remaining loan balance
- **Prequalification Questionnaire:** an HCD form used to pre-determine whether a prospective buyer of a deed restricted unit is eligible under the IHP.
- **Request for Notice of Default:** recorded on title of a deed restricted unit in accordance with Civil Code Section 2924b instructing a mortgage lender to send County HCD a copy of any notice of default of notice of trustee's sale send to the deed restricted property owner
- **Resale Restricted unit:** properties with deed restrictions, covenants, or legal agreements that limit the sale price, buyer income levels, or occupancy terms for a set period of time
- **Restrictive Covenants:** an agreement recorded on title of a deed restricted property which limits its occupancy, resale, or financing to preserve the affordability for persons within a specific income range, and which grants the County the right to enforce compliance
- **Statement of Lender – Purchase form:** an HCD form completed by the mortgage lender of a prospective applicant and submitted to HCD to describe the terms of the mortgage loan used to purchase a deed restricted unit within the Inclusionary Housing Program. Upon **HCD** review a conditional approval may be issued to the lender requiring County **HCD** approval of the final loan documents, prior to execution
- **Statement of Lender – Refinance form:** an HCD form completed by the mortgage lender of a prospective applicant and submitted to HCD to describe the terms of the mortgage loan used to refinance the property. Upon HCD review a conditional approval may be issued to the lender requiring County HCD approval of the final loan documents, prior to execution
- **Traditional/Institutional Lender:** FDIC insured Banks, NCUA insured credit unions, FHA/VA lenders, Fannie Mae/Freddie Mac, and large financial institutions
- **Promissory Note:** a signed document containing a written promise to pay a stated sum to a specified mortgage lending institution
- **Closing Disclosure (CD):** a statement of final loan terms and closing costs provided to **HCD** by a mortgage lender