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Attachment A

COUNTY OF SANTA BARBARA HOME CONSORTIUM

HOMEBUYER ASSISTANCE PROGRAM GUIDELINES

Housing and Community Development Department

County of Santa Barbara

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HOMEBUYER ASSISTANCE PROGRAM GUIDELINES

A. INTRODUCTION

The County of Santa Barbara Homebuyer Assistance Program (HAP) was developed in 1995 by the County's Affordable Housing Program. The HAP has been designed to assist first-time homebuyers who could not afford to buy a home without County assistance. The purpose of the HAP is to provide low – income families the opportunity to become homeowners in our community. Enabling residents to become homeowners supports a sense of community value and permanency. Homeownership helps to stabilize neighborhoods and families.

Through the HAP, families who live or work in the County of Santa Barbara, who meet the specified eligibility requirements are provided second trust deed mortgages which fill the gap between the purchase price of the home and the amount of a mortgage and downpayment the family can afford. The HAP loans require no repayment until the home is transferred or refinanced (under certain circumstances). When the loan is repaid, the County shares in the appreciation of the value of the home to the extent of the County's investment proportionate to the homeowner's investment. The homeowner's investment is based on her/his downpayment, payments on mortgage principal and major eligible capital improvements. The County's investment is the amount of the HAP loan. The investment by the homeowner increases over time while the County's investment is fixed.

There are no re-sale restrictions on properties purchased using HAP loans. Properties must meet certain size and habitability standards and may not be rented while under the term of the HAP loan. The Homebuyer Assistance Program is made available on existing housing in targeted areas and on particular units in targeted new developments. Because the County contains such diverse housing market areas, both types of programs are necessary and the type of program used is based on market conditions. Generally, programs for existing housing will be implemented in North County and project-specific programs will be implemented in South County. Even in project-specific programs, there are no associated re-sale controls to stigmatize the participating units and all participating units must be marketable without the HAP loan.

B. LOAN TERMS

$150,000 Maximum Assistance. The County may provide up to $150,000 to qualified homebuyers. The maximum amount of assistance may be lowered for certain programs, however, an increase in the maximum will require a waiver of these guidelines. Borrowers must qualify for a first mortgage from a participating lender. The amount of assistance will be calculated by subtracting the amount of first mortgage and the borrowers' downpayment from the total purchase price of the home. The total of the County's loan plus the first mortgage cannot exceed 97% of the appraised value of the property. The County loan will be secured by a deed of trust against the property.

$50,000 Forgivable Loan. Up to $50,000 of the $150,000 maximum assistance can be forgiven. So if the loan is $150,000, the $50,000 will be forgiven by $5,000 per year between years 1-10 of the loan for so long as the property continues to be held, used and occupied in accordance to the HAP Guidelines. If the maximum loan amount is less than $150,000, up to one-third of the loan will be forgiven. Annually, one tenth of the forgivable amount will be forgiven over years 1-10 of occupancy. The amount of the loan forgiven will be applied towards the equity of the home on behalf of the owner.

Downpayment. Homebuyers must contribute at least 3% of the purchase price for the downpayment which must come from the borrowers' own funds. However, borrowers who have assets in excess of the amount described below, must increase their downpayment above 3% to the amount in excess of assets equal to:

(1) The amount necessary to pay the estimated closing costs and required downpayment for the unit to be purchased; plus

(2) The amount necessary to pay six (6) months of monthly housing costs (principal, interest, taxes, insurance, and homeowner association fees) associated with the unit to be purchased; plus

(3) Five thousand dollars ($5,000).

For purposes of making this downpayment determination, "assets" are defined to include the value of a household's savings and any equity in stocks, bonds, real property, or other forms of capital investment. "Assets" do not include items reasonably necessary for the personal use of the household, such as personal effects, furniture, appliances, automobiles, and real or personal property used in a business or undertaking which is the primary source of livelihood for the household. Assets also no not normally include the value of life insurance, pensions, IRA accounts, or other retirement funds. However, in order to allow HAP participants the ability to satisfy minimum downpayment requirements, accessible retirement deposits such as IRA or 401K can be considered as funding sources if they so desire (after discounting for applicable penalties).

First Mortgages. First mortgages must have terms of 30 years with a fixed interest rate. Participating lenders may make mortgage loans for up to 95% of the purchase price based on the borrowers' ability to pay for monthly housing costs. The loan-to-value ratio may vary depending upon the mortgage financing source (e.g., Fannie Mae will loan up to 80% of the value of the home). Non-resident co-borrowers are not permitted under this program.

No Monthly Payments. The County's loans are "silent" which means that there is no regular collection of principal and interest. The loan becomes due when the borrower sells, transfers, ceases to maintain the residence as her/his primary residence, converts the home to a rental property, or refinances the first mortgage (unless the refinance is a "no cash out" refinance or the entire proceeds of the refinance are for the purpose of paying for non-luxury capital improvements to the property). Loans do not generally become due in the case of death or divorce when the beneficiary or remaining spouse uses the home for her/his primary residence.

30-Year Term. If the borrowers occupy the property continuously for 30 years, the County's loan requirements are forgiven (including equity share and restrictions on renting, refinancing, etc.) except that upon transfer of the property, the principal loan amount must be repaid.

Shared Equity. In lieu of interest, the County shares in the equity of the property (including any appreciation in the value of the property) based on the proportion of the total capital contributed to the property by the County and the borrower at the time of transfer, refinance or prepayment. Properties must be sold at fair market value. The County's capital contribution is the second mortgage loan amount. The borrowers' capital contribution includes the borrowers' downpayment, payments to the principal on the first mortgage loan, and eligible capital improvements approved by the County. Since the borrowers' capital contribution increases over time as they make monthly payments on the first mortgage and pay for capital improvements, the borrowers' equity share in the property will increase the longer they continue to live in the property making payments and improvements.

Equity share will be proportionate to capital contributions only when net proceeds (sales price minus selling costs) are sufficient. The County requires repayment of the full amount of principal unless repayment would cause the homebuyers' return to be less than zero. The amount of any forgiveness of the County's loan due to insufficient or negative net proceeds is limited to 5% for each year the homebuyer has remained in the home. At no time will the amount of forgiveness be greater than the difference between the County loan and the net proceeds. In addition to a waiver of these guidelines, any forgiveness above 5% per year, may require a waiver of federal regulations when federal funds are used.

The *Equity Sharing Explanation Worksheet* is provided as an attachment to these guidelines for illustration. (Attachment A)

Risk of Loss. If the property value does not appreciate, or if the property has actually lost value from the original purchase price at the time the borrower wants to sell the property, the borrowers' equity share will be less than their capital contribution. The County requires repayment of principal unless the borrowers' proceeds are negative. There is never any guarantee that real estate will appreciate in value and it may depreciate at any time. The problem of insufficient proceeds is more likely to occur if the borrower sells the property within a period of only a few years after purchase, because there are costs associated with selling the home that must be paid from the sales proceeds before the equity shares are calculated. Under these circumstances, it is possible for the borrower to lose some or all of their investment (capital contribution) in the property.

Eligible Property Improvements. Eligible capital improvements are limited to substantial (cost of $2,000 or more to install) structural or permanent fixed improvements which cannot be removed without substantial damage to the property or substantial or total loss of the improvements. There is a notification procedure that must be followed for eligible capital improvements to be counted in the borrowers' equity percentage. The value of any eligible improvements is determined at the time of repayment of the HAP loan and is not necessarily the same as the actual cost of construction of the improvements. See *Capital Improvement Guidelines*, Attachment B.

Refinance. Refinance of the first mortgage is permitted without prepaying the County's loan only in cases where (1) the new loan is at a lower interest rate and no additional funds are being borrowed outside of the remaining debt on the first mortgage or (2) the additional funds are being obtained entirely to pay for substantial, non-luxury improvements approved in advance by the County (e.g., bedroom or bathroom addition, roof replacement, electrical upgrade, etc.).

Prepayment. Borrowers may repay the County's loan at any time before it is due. Partial repayments are not permitted. Borrowers must repay the loan principal as well as any equity share due based upon the current fair market value established by a County-approved, certified appraiser. Cost of such appraisals are borne by the homeowner.

C. ELIGIBLE HOUSING

Only units in Santa Barbara County are eligible for purchase. Eligible locations will vary depending on the resources available and any specific program goal. Homebuyer assistance can be targeted within a certain neighborhood to stave off community deterioration, limited to certain new developments, reserved for incorporated cities if the County is administering city funds, or it can cover the entire county or portions thereof.

Eligible unit types include single-family residences; detached homes, condominiums, townhomes, and permanent manufactured housing. The unit must (1) have been owner-occupied or vacant for the entire preceding 3-month period; or (2) is tenant-occupied and is being purchased by all the adult tenants who have occupied the property for the entire preceding 3-month period; or (3) is newly constructed and has never been occupied[1]. Units which are not newly-constructed must meet Section 8 Housing Quality Standards prior to County loan funding or may meet such standards shortly after purchase with appropriate borrower guarantees.

Maximum Purchase Price and Value. The purchase price and value of the home must not exceed 95% of the area median for price and value as determined by the U.S. Department of Housing and Urban Development. Maximum price may be adjusted downward in lower cost areas but may not be increased in any area

Principal Residence. Borrowers must occupy the property as their principal residence. This means that the purchaser household must use the property as its primary place of residence and the property must be owner-occupied upon purchase and for the life of the County's loan. Use of the property or a portion thereof for rental purposes, including temporary leases, is not allowed under the County's loan program. Such violation will trigger immediate repayment of the loan with equity share if, at any time during the loan term, the property is no longer the principal residence of the borrower. See "Section E" of these guidelines for eligibility for "hardship waivers" of this requirement.

Occupancy Requirements. The size of the eligible home is based upon the size of the household. Borrowers may not purchase a home which has less than half the number of bedrooms as it does people (i.e., at minimum, the house must contain sufficient bedrooms such that there are no more than two persons per bedroom). Borrowers may not purchase a home which has more bedrooms than the size of the household plus one (e.g., the maximum number of bedrooms for a family of three would be four bedrooms).

D. ELIGIBLE HOMEBUYERS

Borrowers must meet the following requirements:

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[1] No property may be purchased if it was renter occupied at the time of initiation of negotiation between the buyer and the seller. Therefore, If negotiations began 6 months prior to purchase on a renter-occupied dwelling, it may not be eligible. Also, shorter periods of vacancy or owner-occupancy may be approved by County following verification of lease termination and date of initiation of purchase negotiation.

First-Time Homebuyers. A "first-time homebuyer" is defined as an individual or individuals who have not owned a home during the three-year period before the purchase of the home with County assistance, with the following exceptions:

(1) Any individual who is a displaced homemaker may not be excluded from consideration as a first-time homebuyer on the basis that the individual, while a homemaker, owned a principal residence with her or his spouse or resided in a home owned by the spouse; or

(2) Any individual who is a single parent (as defined in this section) may not be excluded from consideration as a first-time homebuyer on the basis that the individual, while married, owned a principal residence with her or his spouse or resided in a home owned by the spouse; or

(3) An individual who owns or owned, as principal residence during the three-year period before the purchase of a home with County assistance, a dwelling unit which was not permanently affixed to a foundation; or

(4) The individual owns or owned, as a principal residence during the three-year period before the purchase of a home through the HAP, a unit not in compliance with building or other applicable codes which cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

A displaced homemaker is an adult who has not worked full-time, full-year in the labor force for a number of years but has, during such years, worked primarily without remuneration to care for the home and family and is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment. A single parent is an individual who is unmarried, divorced, or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant. Partial ownership in inherited property does not necessarily exclude participation in the program depending upon the value of that ownership interest.

Low Income Households. Borrowers must be households whose members have a total annual gross income which does not exceed 80 percent of the County's median established by the U.S. Department of Housing and Urban Development at the time the household initially occupies the property, or at the time the County's loan closes, whichever is later. Income recertification will be required if more than 180 days have elapsed from the date of the original certification and the date of loan closing or occupancy of the property. It is required that the property be occupied within 60 days of loan closing.

Maximum Allowable Income Determination. The following principles will be utilized to determine maximum allowable income:

(1) The annual income of all adults (individuals over 18) who will be occupying the unit on a permanent basis must be determined, including borrowers, co-borrowers, spouses (unless legally separated, and any dependents. Exceptions may include:

    (a) Income of live-in aids (whether paid by the family or a social service program). This exception does not include related persons; and

(b) Incomes of full-time students under the age of 24 claimed as dependents for federal income tax purposes (i.e., young people who are staying at home while attending school, who may be earning money to assist with their education should not have their incomes included in the calculation).

(2) Income is assessed as a gross amount and is not based on past income but that which can be expected to be received. Therefore, for preliminary determination of eligibility, current pay stubs multiplied by the number of pay periods, including any regularly expected overtime are used as a basis for determination rather than W-2 forms. Tax returns are checked to verify representations of current wage.

(3) Determination of eligible income is based on the U.S. Department of Housing and Urban Development Section 8 definition of "Annual Income" at 24 CFR part 813.

(4) In accordance with Section 8 guidelines, assets which produce income are included based on the income generated. Non-income-producing assets are assessed by taking the passbook savings rate (determined by HUD) and multiplying that rate by the value of the asset (the passbook value of assets is assessed only when total assets are greater than $5,000).

Maximum household income level may be reduced in lower cost areas but may not be increased without a waiver of these guidelines.

Household Size. Household size is determined by the number of people who will occupy the home within 90 days of purchase. Every member, regardless of age is to be counted, this includes children expected to be born to pregnant women, children in the process of being adopted by an adult, children whose custody is being obtained by an adult, children who are temporarily absent from the home due to placement in foster care, and children for which the household has 50% or more custody.

Preferences. Preference is given to households with members who live or work within the County of Santa Barbara. When the County is administering city funds, the preference may be provided for those who live or work within city boundaries. Preferences have the impact of prioritizing families when a lottery is used and serve as restrictions when an on-going program is being implemented which does not have a lottery. Other preferences may be given depending upon program goals as long as such preferences are not in conflict with applicable fair housing laws.

Residency. The borrower must be a citizen or a permanent resident of the United States.

Conflict of Interest. The HAP is covered by the HOME Consortium Conflict of Interest Provisions stated below:

> "No 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, may obtain a financial interest or benefit from a County of Santa Barbara affordable housing activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter. Individuals covered by the previous sentence include, but may not be limited to the following:

(1) Elected and appointed 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 Affordable Housing Loan Committee.

(2) Employees and family members of the Office of the Treasurer-Tax Collector 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, Air Pollution Control District, Planning and Development, County Administrator, and Public Works.

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 penalized by this conflict of interest provision. The County reserves the right to approve exceptions to the above after public disclosure of such an exception."

E. ADMINISTRATION

Homebuyer Education. All potential participants are required to complete a County-approved homebuyer education course prior to entering into a purchase contract.

Income Certification. The County will conduct a preliminary assessment of income and first-time homebuyer eligibility by reviewing primary source documents before participants are directed to complete a first mortgage loan application or before names are placed on a lottery list (depending upon the form of program administration).

The participating lender will review necessary documents provided by the participants or third party sources to determine that the income of all adult members of the household planning to occupy the assisted unit is at or below 80% of the area median. The lender will use County-required guidelines to assess annual household income. The participating lender, as the County's agent, will certify the applicant's program eligibility in conjunction with the loan underwriting process. The lender will be responsible for any necessary verification of the information provided by the applicant. The County may review determinations made by the lender and deny assistance in cases of disagreement with lender certification.

Loan Approval. Participating lenders will conduct the underwriting to determine the amount of assistance required from the County. The County will review the lenders' underwriting and approve or deny all loans.

Eligible Lenders. Only lenders which have been approved by the County and are operating under a County-executed agreement or memorandum will be eligible to issue first mortgages.

Waivers. Unless otherwise stated, exceptions to these guidelines require a waiver approved by the County of Santa Barbara Board of Supervisors. In cases where federal or State funds are used and federal or State regulations are in conflict with these guidelines, federal or State regulations will govern. When federal or State funds are used, waivers of these guidelines may not be provided unless such waivers are in line with federal or State rules.

Hardship Waivers. A hardship waiver may be obtained from the Affordable Housing Program Manager (or the equivalent manager responsible for HAP administration) to permit a borrower to rent her/his unit for one year. Such a waiver cannot be obtained in the first ten years of property ownership. Waivers may not be approved more than once in a five – year period, such five year period beginning after the initial ten years of ownership.

A hardship is defined as:

(1) An emergency involving a long-term illness or injury requiring medical attention for the owner of the affordable unit or member of the immediate family; or

(2) The death of a member of the immediate family; or

(3) A job transfer or loss of job.

Prior to application for hardship waiver, borrower must show evidence that demonstrates that the borrower has made a good faith effort to sell the unit for three consecutive months. The house must remain on the market while the borrower is leasing the property and all disclosures regarding potential sale must be made to prospective renters. County will review the property's asking price before granting the hardship waiver to determine if the price is above fair market value and, therefore, inhibiting the sale.

Attachment A
EQUITY SHARING EXPLANATION
Worksheet & Certification

County of Santa Barbara's Homebuyer Assistance Program

The County of Santa Barbara's Homebuyer Assistance Program (HAP) provides loans to assist low-income to families in their home purchase. The HAP loan is unlike a typical bank loan in that

- There are no monthly payments;
- Interest on the loan is deferred, usually until you sell your home;
- The deferred interest is in the form of a percentage of the funds remaining when the property is sold after paying off the first mortgage and paying the costs of sale; and
- The amount of money the homeowner keeps depends on the amount of their downpayment, the amount of the principal you have paid off of the first mortgage loan, and the time they have lived in the home. If the homeowner adds substantial improvements to the property, the value of those improvements also increases the amount the homeowner keeps.
- After 30 years, only the principal is due on the loan.

It is very important that all persons interested in participating in the HAP clearly understand the terms of the HAP loan. This form is designed to help the homebuyer understand the deferred interest/equity sharing aspect of the HAP loan. Other rules governing the HAP are explained in the Program Guidelines, the program brochure and the Promissory Note.

"When I sell my home, what will I earn on my investment and what will the County require that I pay them for the use of the County funds?"

The longer a family resides in its home, making regular payments of principal and interest on the bank mortgage, the higher the financial return will be when the family decides to sell the home (assuming normal appreciation). There is a financial incentive to participate in the HAP only if you plan to be a long-term homeowner.

Homeowner's contribution is the total of the downpayment, payments made on the principal of the first mortgage, and the value of any eligible, County-approved physical improvements. Over time, the homeowner's contribution increases as the first mortgage is paid off.

County's contribution is equal to the amount of the County's loan. Since this will generally be the same amount throughout the residency of the buyer, the County's proportionate contribution decreases over time.

The following examples show three different possible scenarios; appreciation, depreciation and level home value. Your lender should provide you with a spreadsheet that provides an example for your particular transaction.

Equity Share at Time of Purchase

Assumptions:
(these assumptions run throughout the examples)

A. Original Purchase Price	$400,000
B. Homebuyer's Downpayment (Buyer's own fund)	$ 20,000
C. First Mortgage Loan	$230,000
D. HAP Loan	$150,000

*30 year mortgage at 6.375%

Total Equity Invested:

Homeowner	$ 20,000
County	$150,000
Total	$170,000

Equity Share at Time of Purchase

Homeowner ($20,000/$170,000)	=	12%
County ($150,000/$170,000)	=	88%

****Note:** For these examples, equity share percentage numbers are rounded. For purpose of calculating actual share, the County will use two decimal places.

Example #1: Your Home Appreciates

This example assumes that your home appreciates $100,000 by year 10. Your actual situation may differ. *If the property appreciates*, the net proceeds after the sale of the house are divided between the County and the homeowner based on the percentage of their equity shares at the time of the sale. The longer the homeowner remains in the home and continues to pay the interest on the first mortgage, increasing their equity share, the larger the share of the proceeds from the sale.

Selling at the end of 10 years*:

Homeowner's Contribution			
Principal paid on first mortgage			$32,100
Downpayment			$20,000
County Forgivable loan to owner equity			$50,000
Total			$102,100
County's Contribution			
County			$100,000**
Total Project Equity			**$202,100**
Homeowner's Equity Share ($102,100/202,100)	=	51%	
County's Equity Share ($100,000/202,100)	=	49%	
Sale's Price			$500,000
Balance on First Mortgage			- 197,900
Net Proceeds			**$302,100**
Minus County Loan			$100,000
Appreciation			**$202,100**
Homeowner's Share: ($202,100 x 51%)			**$103,071**
Homeowner's Investment			- 52,100
Homeowner's Return			$50,971
County's Share: ($202,100 x 49%)			**$ 99,029**
County's Investment			$100,000
County's Return			-$971

* There is usually a 6% cost of sale that has not been factored in this calculation

** The $100,000 represents the maximum loan amount of $100,000 minus the $50,000 that is forgiven after ten years and applied to the owner's equity.

Example #2: Your Home Declines in Value

This example assumes that your home depreciated $50,000. If this is the case, the net proceeds will be insufficient to repay the County *and* recoup your investment. The County requires that you repay the original amount of the loan unless repayment would mean that you would have to come up with additional funds to repay the County's loan.

Assumes selling at the end of ten years (as above)

Sale's Price* (minus the $50,000 depreciation)	$350,000
Balance on First Mortgage	- $197,900
Net Proceeds	$152,100
County Loan	$100,000**
Owner's portion	$52,100

Since there is no appreciation, there are no additional funds to be shared. However, the homeowner has already received the benefit of having $50,000 of the County loan already forgiven.

* There is usually a 6% cost of sale that has not been factored in this calculation
** The $100,000 represents the maximum loan amount of $100,000 minus the $50,000 that is forgiven after ten years and applied to the owner's equity.

Example #3: Your Home Does Not Change in Value

This example assumes that there is no change in the purchase price of your home when you decide to sell it. If this is the case, the net proceeds will be insufficient to repay the County *and* recoup your total investment.

***Assumes selling at the end of five years (as above*)**

Sale's Price (same as original purchase price)*	$400,000
Balance on First Mortgage	- 197,900
Net Proceeds	**$202,100**
Homebuyer's Investment	$102,100
County's Investment	+$100,000*
Total Investment	**$202,100**

In this case the net proceeds of $202,100 is sufficient to repay the County's loan *and* the full investment by the homeowner. But if the net proceeds are insufficient to pay the County's loan, the County's loan must be repaid in full.

The homeowner's investment of downpayment, payments on the first mortgage principal and equity credit equals $102,100. This means the homeowner did not gain any equity because the home did not appreciate. However with the County’s $50,000 forgivable loan, the homeowner still made $50,000.

* minus the $50,000 forgiveness amount

Example of what the Homeowner signs

Statement of Understanding

I have read this equity sharing worksheet with the assistance of the participating lender. My signature below indicates that I understand the shared equity provisions, and that this disclosure form will be submitted as part of my application for the HAP loan from the County of Santa Barbara.

Signature(s) of Applicant(s)

Applicant Signature	Date	Applicant Signature	Date
Applicant Name (printed)		Applicant Name (printed)	
Applicant Signature	Date	Applicant Signature	Date
Applicant Name (printed)		Applicant Name (printed)	

Participating Lender Representative Certification

I understand that it is my responsibility to provide information on the HAP loan parameters and loan terms to the applicant(s) as described in the *Housing Assistance Program Guidelines, the Eligibility Guidelines, the Promissory Note, and this Shared Equity Explanation Worksheet.* I have described the shared equity provision(s) of the loan to the best of my ability and have answer any and all questions of the applicant(s).

Signature of Participating Lender Representative

Participating Lender Representative   Date

Attachment B
Homebuyer Assistance Program
ELIGIBLE CAPITAL IMPROVEMENTS GUIDELINES

To the extent the property permits, homeowners who are participating in the Homebuyer Assistance Program (HAP) may make substantial improvements that can significantly increase their equity share and, therefore, increase their financial return upon the sale of their home. In order for the improvements to be added to the homeowner's capital contribution and thus equity share, the improvements must be deemed eligible and approved by the County according to the following guidelines:

Eligible Capital Improvements
As defined in the Promissory Note: Eligible improvements are substantial structural or permanent, fixed improvements which cannot be removed without substantial damage to the property or substantial or total loss of value of said improvements. Eligible capital improvements *do not* include maintenance items.

Eligible improvements include only:

- Improvements installed by the homeowner or at the homeowner's direction.
- Those about which the homeowner has notified the County (see below).
- Improvements which cost $2,000 or more to install.
- Those which have received the required zoning and building permits and approvals.

Eligible improvements do not include those improvements necessary to repair any violations of building, plumbing, electric, fire or housing codes or any other provisions of the County of Santa Barbara Building or Housing Codes, or Section 8 Housing Quality Standards.

Examples of eligible capital improvements:

- Room additions that add to the living space
- Addition of a bathroom
- Swimming Pool
- Sauna
- Deck or patio addition
- Installment of hardwood floors
- Substantial kitchen remodel (replacement and upgrade of cabinets, floors, fixed appliances)
- Substantial bathroom remodel (replacement and upgrade of fixtures, floors, tile)
- Window upgrades and replacements

- Major exterior renovation that may include upgrade of deteriorated peeling paint, replacement/repair of exterior trim and fascia, roof replacement, etc.
- Major, permanent landscaping

Examples of *ineligible* capital improvements:

- Hardwood floor replacement
- Cosmetic Painting
- Carpeting or linoleum
- Window coverings
- General repairs and replacements
- Moderate kitchen or bathroom improvements such as countertop upgrade, minor or non-fixed appliance replacement, tile replacement, regrouting
- Plumbing, HVAC repairs and replacement

When approving the eligibility of improvements, County officials should ask themselves:

- Is this improvement permanent?
- Is this improvement substantial?
- Is the probable useful life of the improvement, at least, ten years?
- Is this an improvement likely to add value or is it merely cosmetic or a minor upgrade?
- Could the improvement be removed and sold separately or moved again without major damage or destroying the improvement itself or the property?

The purpose of the capital improvement element of the HAP is to encourage homeowners to fix up their properties. It is not to get into intensive micro-managing and "nickel and diming" of basic home repairs and minor improvements. Any disputed determination of an eligible improvement should be brought to the Affordable Housing Loan Committee for a final determination.

Procedures

A. <u>Improvement Verification</u>

HAP participants who believe they have made improvements that meet the criteria in the HAP Note as elaborated above, must notify the County:

- by, at least, first class mail
- within 60 days of the completion of the improvements
- include proof of completion
- include evidence of any and all required permits and approvals
- include evidence of total improvement cost

Upon receipt of the information, the County will review and approve or disapprove all improvements. Within 15 working days, the County will prepare a memorandum to the homeowner verifying the eligibility or ineligibility of the improvements and including a written description of the improvements. A copy of this verification letter along with all documents pertaining the improvements that were provided by the homeowner, shall be forwarded by the County to the loan servicer (if the County is using a loan servicer. The original documents submitted by the homeowner along with the copy of the verification letter shall be maintained in the homeowner's loan file at the County.

B. Improvement Valuation

When the homeowner decides to transfer, or refinance her/his home, he/she must notify the County at least 30 but no more than 120 days before the time of transfer or refinance. The notification must be in writing and must request that a determination of value be made on the improvement (s).

Upon receiving notice from the homebuyer, the County must make a determination of value within 10 working days and notify the homeowner as to that determined value. The County may and should draw upon technical expertise such as may be represented among the Loan Committee or Advisory Council members or others to make its determination. If the homeowner disagrees with the determination the homeowner may contact the County and discuss his/her disagreement.

If the County declines to change the County's determination of value, the homeowner must either:

- accept the County's valuation. or
- obtain an appraisal which conforms to the Uniform Standards of Professional Appraisal Practice performed by an independent appraiser.

If the homeowner decides to have an appraisal performed, the appraisal must separate out the value of the improvements from the overall value of the home. The appraisal must clearly indicate the dollar amount by which the fair market value of the property has been increased as a direct result of the eligible and documented improvements. The cost of the appraisal will be borne by the homeowner.

C. Calculation

The County must notify the loan servicer (if a loan servicer is being used), in writing, of the final determination of the value of the improvements. Upon sale or refinance, the County or its loan servicer will calculate the division of the net proceeds between the County and the homeowner. **The value of the eligible improvements will be added to the homeowner's downpayment and payments to principal on the first mortgage to establish the total homeowner capital contribution for purposes of calculating the homeowner's interest in the property (see definition of "My Capital Contribution" in Promissory Note).**