

Recording Requested By:

When Recorded Mail To:

City of Santa Barbara
Community Development Dept.
Attn: Housing Programs / MB
P.O. Box 1990
Santa Barbara, CA 93102-1990

No Fee Per Govt. Code § 6103

APN: _____
Property Address: _____
Santa Barbara, CA

AFFORDABILITY COVENANT AND OPTION TO PURCHASE

This Affordability Covenant and Option to Purchase (hereinafter "Covenant") is dated as of this ____ day of _____, by and between _____ (hereinafter "Owner") and the City of Santa Barbara, a body politic, (hereinafter "City").

This Covenant applies to the real property commonly known as 211 W. Gutierrez St., Unit # , Santa Barbara, California, which is more fully described in the Legal Description attached and incorporated by this reference herein (hereinafter "Property").

This Covenant rescinds and supersedes the previous affordability control document on the Property, which was titled _____ recorded on _____ as Instrument Number _____ of Official Records, Santa Barbara County.

RECITALS:

WHEREAS, the Property is a part of El Zoco, a condominium project consisting of 17 dwelling units (hereinafter "Project"); and,

WHEREAS, the City has provided rehabilitation loans to # El Zoco homeowners; and,

WHEREAS, Owner has benefited from one of these loans, in the amount of _____, at an interest below market rate, to pay the special assessment levied on the Property by the El Zoco homeowners' association for the purpose of needed repairs and rehabilitation to the Project; and,

WHEREAS, the intent of the City in providing these loans is to preserve the affordability of the Property for persons with incomes within a specified range and,

WHEREAS, subsequent Owners will benefit from the limitation on the purchase price of the Property which this Covenant requires; and,

WHEREAS, the intent of Owner is to preserve through this Covenant the affordability of the Property for persons with incomes within a specified range and to assign to the City the right to enforce compliance with this Covenant;

NOW, THEREFORE, in consideration of the benefits received by the Parties, the Parties agree as follows:

I. DEFINITIONS

A. "Owner": (i) _____, (ii) any subsequent purchaser (whether a Transferee or non-occupant titleholder), devisee, successor trustee, or grantee or (iii) any other holder of title to the Property or any portion thereof or interest in the property except City-approved lenders or easement holders.

B. "Non-Occupant Titleholder": See Section XIX.

C. "Encumber" "Encumbrance": Shall include any mortgage, deed of trust, lien, security agreement or other instrument intended to secure an obligation or indebtedness.

D. "Institutional Lender": Any financial institution, such as a bank, an insurance company or a savings and loan organization, whose lending practices are subject to and regulated by mortgage finance regulations.

E. "Household": Persons who will live in the property as their primary residence and who are unrelated, related by blood, marriage, law, or are registered domestic partners. Persons (including sons and daughters) aged 18 and older who live away from home for purposes of either work or study and return to the household periodically will not be counted as household members.

F. "Gross Household Income": The combined gross income of all members of the Household who are 18 years or older, including all wages, salaries, profits, interest payments, rents, income earned from investment assets, and all other forms of earnings, before any deductions or taxes. For self-employed individuals, gross income is business income less approved business expenses. The Community Development Director or the Director's designee will determine the method of calculating Gross Household Income and the method of imputing income from investment assets.

G. "Housing Expense Ratio": The percentage of Gross Household Income that goes toward paying housing expenses, including the mortgage loan payment(s), mortgage insurance premium (if applicable), hazard insurance premium, property taxes, and homeowners' association dues (if applicable). In the case of an adjustable rate mortgage, the mortgage loan payment will be calculated using the fully indexed rate or the start rate, whichever is greater. Housing Expense Ratio is calculated by dividing total monthly housing expenses by monthly Gross Household Income.

H. "Total Debt-to-income Ratio": The percentage of Gross Household Income that goes toward paying all recurring debt payments, including housing expenses and other debts such as credit card payments, car loan payments, student loan payments, child support payments, alimony payments, legal judgments and all other debt payments. Total Debt-to-income Ratio is calculated by dividing total monthly debt payments by monthly Gross Household Income.

I. "Area Median Income": The annual median family income for the Santa Barbara area as published by the U.S. Department of Housing and Urban Development (HUD). In the event such income figures are no longer published, or have not been updated for a period of at least eighteen (18) months, the City may use or develop such other reasonable and comparable substitute figures as it may choose.

J. "Principal Place of Residence": The place where a person or persons reside on a full-time basis for a minimum of ten months out of each calendar year, unless otherwise reviewed and pre-approved by the City.

K. "Resident": A person who provides written verification of current residency or employment within the area bounded by the Pacific Ocean on the south, Ventura County line on the east, the Gaviota tunnel on the

west and the ridge-line of the Santa Ynez mountains on the north generally known as the South Coast portion of Santa Barbara County.

L. "Residential Real Estate": Residential real property including single family dwellings, undeveloped residentially-zoned land, mobile homes and manufactured housing.

M. "Transfer": Any sale, assignment, or transfer, either voluntary or involuntary, or by operation of law, whether by deed, contract of sale, gift, devise, bequest, trustee's sale, deed in lieu of foreclosure, or otherwise, of any interest in the Property, including but not limited to, a fee simple interest, joint tenancy, community property, life estate, leasehold, or an interest evidenced by a land contract by which possession of the Property is transferred and Owner retains title.

N. "Transferee": A person who receives property being transferred.

O. "Effective Date": The date Covenant is recorded in the Official Records of Santa Barbara County Recorder's Office or absent recordation the first date written above.

P. "Maximum Sale Price": See Section X.

II. TERM AND ENFORCEABILITY

A. Term

This Covenant shall bind and the benefit hereof shall inure to the Owner, his or her heirs, legal representatives, executors, successors in interest and assigns, and to the City, its successors, designees, or assigns until ninety (90) years from the Effective Date of this Covenant. If an owner occupies the unit for the full term in compliance with this Covenant, this Covenant shall expire and the Owner may sell the Property to any transferee for any price. However, years of ownership are not transferable. If the Owner sells the Property during the term of this Covenant, the City-qualified Transferee will be required to sign and record a new Covenant that begins a new 90-year period of price and occupancy restrictions. This requirement will continue for each new owner of the unit.

B. Covenants Running With the Land; Equitable Servitude

The Property is held and hereafter shall be held, conveyed, hypothecated, encumbered, leased, rented, used, and occupied subject to these covenants, conditions, restrictions and limitations. All of the herein-stated covenants, conditions, restrictions and limitations are intended to constitute both equitable servitudes and covenants running with the land.

C. Binding Effect

Any purchaser of the Property or of any portion of or interest in the Property, by the acceptance of a deed therefore, whether from Owner or from any subsequent owner of the Property, or by the signing of a contract or agreement to purchase the same, shall, by the acceptance of such deed or by the signing of such contract or agreement be deemed to have consented to and accepted the covenants, conditions, restrictions and limitations set forth herein.

D. Enforceability

In order to preserve through this Covenant the affordability of the Property for persons with incomes within a specified range, the Owner hereby grants and assigns to the City the right to review and enforce compliance with this Covenant, and in furtherance of this right, grants to the City an Assignment of Rents, described under Section XIII of this Covenant, and an Option to Purchase the Property, described under Sections III and XIV of this Covenant, and assigns to the City any proceeds payable to the Owner from a foreclosure or deed in lieu of foreclosure in excess of the Maximum Sale Price, as described in Section XII.B of this Covenant.

III. DEED OF TRUST; SUBORDINATION; DEFAULT; NOTICE TO CITY; RIGHT TO CURE

A. Subordination

This Covenant shall be subject and subordinate to the lien of a City-approved first deed of trust which secures a loan made by an Institutional Lender (hereinafter "Institutional First Deed of Trust"), subject to the following conditions and limitations:

1. Limit on Amount

The amount of the Institutional First Deed of Trust shall not exceed the following amount: the City approved purchase price paid by Owner, less the approximate balance on City financing (if any) as of the date of this Covenant (noted in Section XX below). The subordination of this Covenant pursuant to this Section III shall not apply to any Institutional First Deed of Trust that exceeds such amount, absent specific written approval from the Community Development Director.

2. Default; Right to Cure

In the event of default under any deed of trust, including the City-approved Institutional First Deed of Trust, the City shall have the same right as the Owner to cure the default and redeem the Property prior to foreclosure sale. Such redemption shall be subject to the same fees, charges and penalties which would otherwise be assessed against the Owner. Nothing herein shall be construed as creating an obligation on the part of the City to cure any such default nor shall this right to cure and redeem operate to extend any time limitations in the default provisions of the underlying deed of trust or mortgage.

3. Right to Exercise Option

Any default under a deed of trust, including the Institutional First Deed of Trust, shall trigger the City's right to exercise its option to purchase the Property, as described more fully in Section XIV below, and the City may exercise its option to purchase the Property pursuant to such provisions.

4. Request for Notice of Default

The holder of the Institutional First Deed of Trust shall be under no obligation to provide notice of default to the City other than as required pursuant to a duly filed request for notice of default under Section 2924b of the Civil Code. In the event the City elects to exercise such option to purchase, subsequent to a default on the Institutional First Deed of Trust, and notwithstanding any language contained herein to the contrary with regard to the rights of the City, the City must complete such purchase no later than the end of the period established by Section 2924c of the Civil Code for the reinstatement of a monetary default under the deed of trust.

B. Rights of Institutional Lender

Subject to these above-stated conditions and limitations, this Covenant shall not impair the rights of such Institutional Lender, or such Lender's assignee or successor in interest, to foreclose or take title to the Property pursuant to the remedies in the Institutional First Deed of Trust, or accept a deed in lieu of foreclosure in the event of default by a trustor under the Institutional First Deed of Trust. Subsequent to the Institutional Lender acquiring title through foreclosure sale or accepting a deed in lieu of foreclosure under such Institutional First Deed of Trust, this Covenant shall be terminated and of no further force or effect as an encumbrance against the Property (or any owners, tenants or encumbrancers in the chain of title), and the Institutional Lender or subsequent transferee may sell the Property to any purchaser at any price or lease the Property to any tenant at any rental amount, without thereafter being subject to this Covenant. At the request of a Lender or its title insurer, City will execute a quitclaim deed or other recordable instrument in order to confirm the termination of this Covenant.

C. Notice to City by Owner

Prior to recordation, Owner shall notify City of any deed of trust, financing instrument or mortgage to be recorded against the Property, and shall provide the City with the information needed by the City to record a Request for Notice of Default. Note that the City's approval of any financing is required under Sections V and XI below.

IV. OCCUPANCY, LEASING AND OWNERSHIP OF OTHER REAL PROPERTY

A. Property as Principal Residence

Owner shall occupy the Property as his/her/their Principal Place of Residence as defined herein. During the time the Property is vacant while being actively offered for sale by Owner, this owner-occupancy requirement shall not apply; however, Owner may not rent the Property during such period.

B. Rental of Property

Owner shall not rent or lease the Property without prior written approval by the City. Owner may rent out a room in the Property without City approval as long as all Owner(s) of record continue to reside in the Property as his/her/their principal place of residence.

1. Modification of Occupancy Restrictions

The City Community Development Director or the Director's designee may consider modifications to these occupancy requirements and rental restrictions if Owner is in compliance with this Covenant and demonstrates need due to illness, temporary employment relocation, sabbatical, extended travels, or other good cause, but in no case will the term of the vacancy be more than 12 months consecutively.

2. Approval of Rental Agreement

Any lease or rental agreement for the Property approved pursuant to this section shall conform to the affordability requirements established by the City, as these requirements are in effect at the time of the proposed lease or rental. In no case shall homeowners' association (HOA) dues be included to increase the monthly rental rate above that which is dictated by the applicable affordability requirements. Any lease or rental without prior written approval by the City violates this Covenant, and will result in an assignment of all rents due or collected, as described in Section XIII below.

3. Submittal of Approved Rental Agreement to City

As soon as possible after Owner has requested and obtained the City's written approval to rent the Property, Owner shall provide a copy of the lease or rental agreement, the names of the renters, the rent being charged, and the new temporary address of the Owner. If the terms of any lease or rental agreement are amended, City shall be notified in writing. Owner shall notify City when he/she/they re-occupy the property.

C. Ownership of other Residential Real Estate

Owner may NOT have any form of ownership or ownership interest in whole or in part, (including long-term leaseholds, partnerships, and limited partnership or limited liability ownership) in or to any other Residential Real Estate as defined herein, at time of application for ownership or concurrently with the ownership of this Property.

D. Modification of Ownership Requirements

The City Community Development Director or the Director's designee may consider modification to Item C above if Owner demonstrates need or other good cause. For example, the Director, or designee, may consider waiving the requirement when the ownership interest in another property is a small fractional

interest, if the property has minimal value compared to the value of the affordable unit, or in the case of an existing City affordable owner (in good standing) who has outgrown their unit due to birth or adoption and wishes to purchase a larger affordable unit. In the event an existing owner purchases another affordable unit, they will be required to concurrently sell their existing affordable unit to a City-qualified household and execute a new affordable covenant in effect at the time of the purchase. Years of ownership are not transferable. Ownership of any other residential real estate in whole or in part without written approval by the City violates this Covenant, and will result in default and remedies as described in this Covenant.

V. REQUIREMENTS FOR CITY APPROVAL OF TRANSFER, REFINANCE OR OTHER ENCUMBRANCE

A. No Further Encumbrance or Lien

Except as provided in Section III above, Section V.B and Section XI below, the Property shall not be transferred, financed, refinanced, or otherwise encumbered in any way without the prior written approval of the City Community Development Director or the Director's designee.

B. Exceptions

The following transfers are exceptions to the requirements of Section V.A above and do not require prior written approval by the City Community Development Director or the Director's designee; however, Owner is required to notify the City in writing upon any of the following transfers and provide relevant documentation to the City, and, upon request of the City, a legal opinion from a licensed California attorney providing a legal opinion as to the effect and validity of the documents:

1. Death

A transfer resulting from the death of an Owner where the Property is transferred to the spouse or registered domestic partner who was a co-owner prior to the transfer.

2. Marriage

A transfer by an Owner where the Owner's spouse or registered domestic partner becomes the co-owner of the Property.

3. Divorce

A transfer resulting from a decree of dissolution of a marriage or legal separation from a property settlement agreement incidental to such a decree by which a spouse who is an Owner becomes the sole Owner of the Property.

4. Trust

A transfer by an Owner into an inter vivos trust in which the Owner is named the sole Trustee and the sole Beneficiary during the Owner's lifetime.

VI. CITY OPTION TO PURCHASE UPON SALE OR OTHER TRANSFER

A. Grant of Option and Right of First Refusal

In consideration of the benefits received by Owner, Owner hereby grants to the City, and the City hereby accepts an Option to Purchase, which the City may exercise anytime Owner intends to sell or transfer the Property.

B. Notice to City

Anytime during the term of this Covenant when Owner intends to offer to sell, convey, or transfer the Property or any portion thereof, Owner shall give to the City written notice at the address and in the manner specified in Section XVI.F below, of its intent to sell the Property with a summary of the proposed transfer.

C. Exercise of City Option

The City Option may be exercised at the times and on the conditions set forth below:

1. The City shall have 30 days after receipt of written notice from Owner to respond in writing to Owner of the City's intent to exercise its Option to purchase.
2. The City shall have an additional 45 days to purchase the Property at the Maximum Sale Price calculated as per Section X below. The length of any delays caused by Owner or Owner's agents shall extend such time. Owner shall be responsible for all costs and provide all reports as is customary for sellers of residential property in Santa Barbara, including title insurance, zoning inspection, termite report and any other maintenance repairs as disclosed by property and/or termite inspection report(s).

D. Term of Option

The term of the City Option shall be from the Effective Date of this Covenant until the expiration of the affordability term.

VII. SALE OF PROPERTY TO PRIVATE PARTY

A. Owner's Right to Sell

If the City does not exercise its right to purchase the Property during the affordability term pursuant to Section VI above, this Section VII shall take effect and Owner shall have the right to sell or transfer the Property to a City-qualified Occupant Purchaser (hereinafter "Transferee"), subject to the terms and conditions of this Section.

B. Approval of Sale by City

1. The City shall oversee the transfer or sale of the Property to any Transferee. No transfer or sale of the Property shall occur under this Section without the prior written approval of the City Community Development Director or the Director's designee.
2. The City may approve a proposed transfer of the Property provided that Owner is not in default under this Covenant, and that the City does not elect to exercise its Option to Purchase, and that the City has determined that Owner and Owner's proposed Transferee has complied with all of the requirements and provisions of this Covenant and affordable policies then current.
3. Owner or Transferee shall submit to the City the proposed sale contract, escrow instructions, and all other related documents that shall set forth the terms of sale or transfer of the Property. Contract shall incorporate information including but not limited to the following:
 - a. Sales Price
 - b. Price to be paid by the Transferee for Owner's personal property, if any.
 - c. All other amounts of money or other consideration, if any, concerning the Property to be paid by the Transferee to the Owner or any other person or entity, and reason such payment is made.
 - d. The down payment to be paid by the Transferee
 - e. Financing terms and provisions

4. Transferee shall submit to the City Community Development Director or the Director's designee, information including but not limited to the following:

- a. Documents to support identification
- b. Documents to support residency
- c. Documents to support income and assets
- d. Documents to support recent bank activity
- e. Documents to support current debts
- f. Documents to support loan terms and provisions
- g. Documents to support compensating factors as determined on a case-by-case basis

5. The information provided shall be used by the City to determine the eligibility of the Transferee. Qualification documentation is valid for a 90-day period. If Transferee has not purchased a home within this period, updated qualification documentation is required.

6. All information and documentation provided to the City is subject to third-party verification.

7. The City reserves the right to collect a reasonable fee to cover the City's costs of verifying information and administering its rights and obligations under this Covenant.

VIII. ELIGIBILITY OF TRANSFEREE UPON PURCHASE

Owner shall not sell or transfer the Property to any Transferee who does not satisfy all of the following eligibility requirements:

A. Each Transferee shall be a Resident as defined herein.

B. Each Transferee shall certify his/her/their intent to occupy the Property as his/her/their principal place of residence as defined herein.

C. Transferee shall not have any form of ownership or ownership interest in Residential Real Estate (as defined herein) at the time of application for the purchase of the Property. The Community Development Director, or designee, may consider waiving this requirement for good cause. For example, the Director, or designee, may consider waiving the requirement when the ownership interest in another property is a small fractional interest, if the property has minimal value compared to the value of the affordable unit, or in the case of an existing City affordable owner (in good standing) who has outgrown their unit due to birth or adoption and wishes to purchase a larger affordable unit. In the event an existing owner purchases another affordable unit, they will be required to concurrently sell their existing affordable unit to a City-qualified household and execute a new affordable covenant in effect at the time of the purchase. Years of ownership are not transferable.

D. If Transferee owned Residential Real Estate at any time during the two years prior to the application to purchase the Property, Transferee's total equity (net proceeds) in such Residential Real Estate shall not exceed fifty percent (50%) of the purchase price of the Property.

E. Transferee's annual Gross Household Income (as defined herein) shall not exceed _____ percent (___%) of the Area Median Income (AMI) in Santa Barbara County, adjusted for household size as published by the U.S. Department of Housing and Urban Development (HUD).

F. No income will be counted or inputted from those assets used for the down payment and closing costs on the Property, except to the extent that the down payment exceeds twenty percent (20%) of the purchase price.

G. The maximum value of Transferee's assets, excluding retirement accounts subject to IRS rules, cannot exceed three (3) times the purchase price of the Property. The Community Development Director or the Director's designee may consider waiving this maximum asset requirement on a case-by-case basis for good cause.

H. Transferee's Housing Expense Ratio (as defined herein) shall be no more than forty percent (40%). The Community Development Director or the Director's designee, on a case-by-case basis, may consider a waiver of these requirements for good cause. For example, the Director may consider approving a slightly higher Housing Expense Ratio in the event Transferee requires a co-signer to obtain a loan.

I. Transferee's Total Debt-to-income Ratio (as defined herein) shall not exceed fifty percent (50%).

J. Transferee's first mortgage loan must be amortized over the loan period and cannot include graduated interest, graduated payments, interest-only payments, balloon payments or negative amortization. If Transferee obtains a second mortgage loan as part of their purchase money financing, the second mortgage loan may have an interest only-payment and/or a balloon payment. Adjustable rate mortgages are allowed as long as the loan terms satisfy the preceding requirements for a first mortgage loan and second mortgage loan. The Community Development Director or the Director's designee may consider waiving this financing terms requirement on a case-by-case basis for good cause.

K. Transferee is required to provide a down payment of at least five percent (5%) of the purchase price. Transferee's down payment cannot exceed forty percent (40%) of the purchase price. The Community Development Director or the Director's designee may consider a down payment in excess of forty percent (40%) or an all cash purchase (perhaps from an inheritance or divorce settlement) only if Transferee meets all other qualification requirements including verification that they have sufficient monthly income to support the required forty percent (40%) Housing Expense Ratio under a theoretical sixty percent (60%) loan-to-value mortgage that is fully amortized over 30 years.

L. Transferee may receive all or a portion of the down payment as a gift provided the gift does not exceed twenty percent (20%) of the purchase price and the donor provides a gift letter acceptable to the Transferee's lender and the City. Gifts include funds given to Transferee within 12 months prior to the purchase.

M. Transferee is allowed to have a non-occupant title holder (co-signer) for financing purposes if needed to help the Transferee qualify for a loan. For purposes of calculating the Housing Expense Ratio and Total Debt-to-income Ratio, the income of the non-occupant title holder (co-signer) shall not be included.

N. A credit ("FICO") score below 620 shall disqualify a buyer from owning an affordable unit. The Community Development Director or the Director's designee may consider waiving the credit score requirement on a case-by-case basis for good cause (such as mitigating circumstances for the low credit score).

O. Transferees of units with three or more bedrooms must have a Household (as defined herein) of three or more persons. The Community Development Director or the Director's designee may consider waiving this household size requirement for good cause in cases where the buyer demonstrates a need for a large unit or where necessary to prevent undue hardship.

P. All adults (18 and older) in the Household are subject to eligibility requirements. All adult residents must be owners of record and included on all loan documentation (including Promissory Note and Deed of Trust). The Community Development Director or the Director's designee may consider waiving this requirement on a case-by-case basis for good cause. For example, the Community Development Director or the Director's designee may consider waiving this requirement for a household member younger than age twenty-four (24) who is the child of a titleholder and will reside in the property as their Principal Place of Residence (as defined herein).

IX. REQUIREMENTS FOR APPROVED SALE TRANSACTION

A. Price

The sale price shall not exceed the amount calculated pursuant to Section X below.

B. Recordation of Replacement Covenant

Upon transfer each Owner and Transferee shall execute and cause the recordation of a new Affordability Covenant and Option to Purchase ("Replacement Covenant") which shall replace this Covenant and be substantially similar to this Covenant. The Replacement Covenant shall contain revisions to reflect any changes to the City's adopted affordability policies. Years of ownership are not transferable or assumable. The Replacement Covenant shall have a term of 90 years.

C. Escrow Documents

Each Owner and Transferee shall approve and sign City's escrow instructions, which instruct escrow regarding the requirements of this Covenant, City financing, if any, and City disclosures, if any. Owner and Transferee shall provide the City with a copy of the final purchase/sale contract, settlement statement, signed escrow instructions, and any other document that the City may reasonably request.

D. Unapproved or Fraudulent Sale

In the event a sale or transfer is made in violation of the terms of this Covenant or false or misleading statements are made in any documents or certifications submitted to the City for its approval of the sale or transfer, the City may declare a default under the Covenant. The City shall also have the right to file action at law or in equity to force the parties to terminate and rescind the sale contract and declare the sale void notwithstanding the fact that the sale or transfer may have closed and become final as between the Seller and Owner. In any event, any costs, liabilities or obligations incurred by the Seller and Owner for the return of any moneys paid or received in violation hereunder or for any costs and legal expenses incurred by City in the enforcement of this Covenant, shall be borne by the Seller and Owner, and not by the City. The Seller and Owner shall hold the City and its designees harmless and shall fully indemnify the City including, but not limited to, payment of all City fees and costs, for any action the City takes to enforce the terms of this Covenant.

X. MAXIMUM SALE PRICE CALCULATION

A. Calculation of Maximum Sale Price

The sale price of the Property shall not exceed the Maximum Sale Price as defined herein, except as provided in Section III above. The Maximum Sale Price of the Property is the City-approved purchase price paid by Owner (less the amount of mid-year adjustment, if applicable) adjusted by the percentage change in the Area Median Income (AMI) for the Santa Barbara area during the period in which the Owner owned the Property and occupied it in compliance with the requirements of this Covenant. In some cases a "mid-year adjustment" will apply, as specified below.

B. Mid-Year Adjustment

To allow for a projected change in the Maximum Sale Price between publication dates of the AMI, the Maximum Sale Price may be changed by a "mid-year adjustment" calculated as follows:

1. The City-approved purchase price paid by Owner, multiplied by the following estimate of the as yet unpublished change in the AMI:

One-half of the average annual percentage change in the AMI over the previous two years divided by twelve and multiplied by the number of months between the last publication of the AMI and the date of sale of the unit. Note: this adjustment is based on "one-half of the average" in order to apply a conservative estimate of the change in the AMI.

2. However, no mid-year adjustment shall be included unless at least four months have passed between the last publication of the AMI and the date of calculation of the sale price of the Property.

3. If the "mid-year adjustment" is included in the sale price at any sale, on the next sale the price calculation will be adjusted as follows: the amount of mid-year adjustment which was included in the price paid by Owner shall be subtracted from the price paid by owner. This is to assure that the price is not changed by both the mid-year adjustment (which is based on a future estimate of the AMI), and the actual change in the AMI which later became known.

For Owners not in violation of the Covenant, the City's policy is that an Owner's calculated Maximum Sale Price will not be less than their purchase price. However, the calculated Maximum Sale Price is not a guarantee that the Owner will be able to sell for that price due to market conditions or due to specific project requirements. If the Property sells for less than the calculated Maximum Sale Price, such lower price becomes the basis for the calculation of the Maximum Sale Price upon the next sale of the Property.

C. Owner Improvements Adjustment

To help assure continued affordability to subsequent Transferees, no price increase or other reimbursement will be allowed for property improvements made by the Owner. The Owner is of course free to make improvements for the Owner's benefit and enjoyment, but the Owner will not be compensated for such improvements upon sale of the property.

The Community Development Director or Director's designee may consider, on a case-by-case basis, exceptions to the policy against price increases for property improvements. The minimum cost threshold for exception consideration is \$2,000 and the following shall apply:

1. The improvements must be new, permanent and substantial (maintenance repairs shall not be considered). Only new permanent and substantial improvements to the kitchen and/or bathroom(s) or upgrade of flooring shall be considered.
2. Improvements that are considered decorative, luxury, nonessential, or maintenance shall not be considered. Examples include, but are not limited to painting, wall coverings, window coverings, replacement of carpeting, and lighting.
3. Owners are required to contact the City to obtain program policy regarding owner improvements prior to the commencement of work.
4. Owners must document that improvements will be completed with all required City permits and that the improvements meet the requirements imposed by their Homeowners Association and recorded CC&Rs.

In order for the City to consider an Owner's request for an exception to allow for a price increase for improvements made by the Owner, the Owner must submit the following documentation:

- a. Before and after photos; and
- b. Proof of payment for the work that was completed, such as paid invoices or receipts; and
- c. A copy of any necessary permits, if required; and
- d. An approval letter from the HOA, if required

The allowed price increase for approved improvements shall not exceed the lower of the following:

1. Fifty percent (50%) of the actual out-of-pocket cost of approved improvements paid by Owner (as verified by paid receipts); or
2. Ten percent (10%) of the Maximum Sale Price as calculated at the time of Owner's request and prior to improvements.

The allowed price increase for approved improvements shall only be added to the owner's calculated Maximum Sale Price upon resale and not for a refinance.

D. Other Requirements and Conditions

1. No price increase whatsoever shall be allowed during such time, if any, that Owner was in violation of any requirement of this Covenant.
2. Transferee or Transferee's designee and Housing Programs staff or staff's designee shall be afforded reasonable opportunity to inspect the property for damage or deferred maintenance. If there is property damage or if there is substantial deferred maintenance, Owner shall correct to City's satisfaction. Housing Programs staff may lower the Maximum Sale Price by the amount needed either to repair the damage or to correct needed maintenance.
3. The Owner may not require a Transferee to pay any commissions or other costs of sale typically paid by sellers of residential real property. The Owner cannot require the Transferee to pay the listing agent; likewise, the Transferee cannot require the Owner to pay the selling agent. Absent a 'cooperating' provision in the listing agreement, a Transferee of a City affordable unit may contract with a real estate agent for representation and pay the negotiated fee for this service.
4. The price paid to Owner by the Transferee for Owner's personal property must be disclosed to the City in writing during escrow, and price paid shall not exceed the current fair market value of such personal property.
5. Under no circumstances will the Property's calculated Maximum Sale Price be increased by the amount of monthly HOA dues/assessments or the conversion of an increase of HOA dues to a special assessment. The City has no control over HOA dues, but the Community Development Director or the Director's designee may consider requests for resale price increases due to a special HOA assessment imposed on a City affordable housing project. Such requests will be considered on a project-by-project basis, subject to prior written notice to the City and only upon pre-approval by the Community Development Director or designee.

XI. FINANCING REQUIREMENTS

A. Approval by City

The terms of all financing secured by or recorded against the Property require pre-approval by the City, whether at the time of purchase or at any other time. Purchase financing and refinancing must be provided by a licensed Institutional Lender (as defined herein).

B. Requirements for Refinance Approval

1. Owner is in full compliance with the City's affordability requirements.
2. The terms of the new loan are more favorable than the old loan.
3. Owner's Housing Expense Ratio will not be greater than forty percent (40%).
4. No additional cash is taken out other than the loan costs unless approved in advance by the City. If refinancing results in cash to Owner, Owner's total secured loans-to-value ratio shall not exceed eighty percent (80%).
5. All owners of record are listed on all loan documentation (including the Promissory Note and Deed of Trust).
6. The City may review an owner's credit and may decline approval of proposed refinancing in cases where the borrower's credit is poor.
7. The Community Development Director or designee may consider approving interest-only refinanced loans on a case-by-case basis when no cash is taken out, the borrowers have excellent credit, and the loan-to-value ratio is favorable. Refinances which may result in negative amortization including "reverse mortgages" will not be approved.
8. If the City has provided financing secured by the Property, the City may agree to subordinate the City financing if City is assured that its security interest and the owner's ability to repay remain strong.

9. If the City's approval of the Owner taking cash-out is conditioned upon the pay-off of certain installment debt, such installment debt payments shall occur and be documented through the refinance escrow.

C. Modification of Financing Requirements

The City Community Development Director or the Director's designee may consider modifications to Item B above if Owner demonstrates need or other good cause.

D. Lien or Encumbrance

Owner may not take such action against the Property as may result in a Lien or other Encumbrance being recorded against the Property unless such Lien or Encumbrance is first approved in writing by City in its sole and absolute discretion. In the event a Lien or other Encumbrance is recorded against the Property without such prior approval by City, such an unapproved Lien or Encumbrance may be violation of this Covenant and City may thereafter declare a Default has occurred and pursue all remedies as set forth in Article XIII and Article XIV herein.

XII. BEQUEST OR FORECLOSURE, INSURANCE AND CONDEMNATION

A. Transfers by Operation of Law

In the event of a transfer of the Property by operation of law such as by devise, bequest, foreclosure on any financing, lien or encumbrance not exempted under Section III above, or deed in lieu of foreclosure on any such financing, to a person who does not meet the requirements of Section VIII, the transferee or the estate of the decedent shall be bound by the provisions of this Covenant; however, the City shall not declare a default before allowing such person a reasonable period of time, not less than 90 days, to convey the Property to an eligible purchaser in conformance with all of the provisions of this covenant, including the Maximum Sale Price.

B. Transfer Proceeds

In the event that the Property is transferred through foreclosure, a deed in lieu of foreclosure or a trustee's deed upon sale, a default in a contract of sale, or through any other means, for the purpose of curing or preventing the default by Owner on a loan or obligation, any amount of the sale price which is over and above the Maximum Sale Price calculated according to Section X above, and which would otherwise be payable to Owner after full satisfaction of the lien-holder or lender's loan and costs, shall be due and owing to the City in consideration of the development assistance given by the City.

C. Insurance Proceeds

Any hazard insurance proceeds received by the Owner which are not used to repair or rebuild the Property, and any condemnation award collected by the Owner, shall be distributed as follows:

1. First, to lenders according to the recording priority of their deeds of trust against the Property, as provided by law.
2. If any funds remain after the lenders have been paid, then to the Owner, up to but not to exceed the net amount (after payment of encumbrances) that Owner would have received under a sale at the Maximum Sale Price calculated according to Section X above.
3. If any funds remain after the Owner has been paid, the remainder shall be paid to the City.

XIII. DEFAULTS AND REMEDIES: ASSIGNMENT OF RENTS

A. Notice of Default

Upon any violation of the provisions of this Covenant the City may declare a default under this Covenant by delivering written notice thereof to the Owner. Upon the declaration of a default the City may apply to a court of competent jurisdiction for specific performance of the Covenant, for an injunction prohibiting a

proposed sale or transfer in violation of this Covenant, for a declaration that the prohibited transfer violates this Covenant and is, therefore, void, or for any such other relief as may be appropriate.

B. Assignment of Rents

Owner hereby assigns to City the right to receive the rents due or collected during the entire period the Property is occupied in violation of any of the terms of this Covenant.

C. Remedies Not Exclusive

The remedies stated herein shall not be exclusive, but shall be cumulative to all other remedies and rights the parties may lawfully exercise.

XIV. PURCHASE OPTION UPON DEFAULT

A. Option to Purchase Upon Default

In addition to the remedies provided the City elsewhere in this Covenant, Owner hereby grants to the City the option to purchase the Property effective upon the declaration of a default.

The option to purchase may be exercised upon a default under this Covenant or upon default under any notes Owner has executed in favor of the City, or any deed of trust or any other lien secured by or recorded against the Property including but not limited to a judgment lien, tax lien or Homeowner's Association lien. The City shall have thirty (30) days after declaring a default or receiving notice that a default is declared on any other obligation secured by this Property to notify the Owner of its decision to exercise its option to purchase. Not later than sixty (60) days after the certified mailing of the notice to exercise its option, the City or its assignee shall purchase the Property for the following default purchase price:

The lesser of the following:

1. The Maximum Sale Price calculated per Section X above as of the date of default; or
2. The appraised value of the property as determined by a state licensed appraiser approved by the Owner and City; or
3. The amount necessary to pay the balance due on any City-approved financing

The default purchase price, as determined, shall then be reduced by ten percent (10%) to cover the City's resale costs and further reduced by the cost of damage or maintenance repairs as reasonably determined by the City. The City may also enforce the covenant through the courts.

XV. CITY REQUIREMENTS AND AUTHORIZATIONS FROM OWNER

A. City Requirements from Owner

1. Annual Certification

a. Each year on October 15, or on such other date as specified by the City in writing, Owner shall submit an Annual Certification, signed by Owner under penalty of perjury, which includes Owner's statement that Owner has occupied the Property and complied with all provisions of this Covenant, or includes Owner's explanation of any financing, occupancy or other violation of any provision of this Covenant.

b. The Annual Certification required under this Section shall be mailed or delivered as follows:

City of Santa Barbara, Community Development Department
Attn: AHHS-Housing Programs
P.O. Box 1990
Santa Barbara, California, 93102-1990

or to such other person or address designated by the City.

c. Failure to provide a report within 30 days of the specified date, or any misrepresentations on the report, shall constitute a default under this Covenant.

B. Owner's Authorizations to City

1. Right of City to Inspect Property

Owner shall permit City staff the right to enter and inspect the Property during normal business hours upon at least 72-hours advance notice to Owner. An Owner's refusal to permit inspection will be a default under the Covenant.

2. Right of City to obtain status of Owner's loans

Owner authorizes City to contact Owner's lender or lenders to obtain current loan status at any time without further written authorization from Owner.

3. Right of City to procure reports to confirm compliance with terms of this Covenant.

Owner authorizes City to procure a background report, credit report, and any other screening reports deemed necessary by the City in order to confirm Owner's compliance with this Covenant. Consent is granted by Owner to procure such reports at any time during the term of this Covenant. In the event that information from the report(s) is utilized in whole or in part in making an adverse decision, Owner will be provided a copy of the report(s) and a description in writing of applicant's rights under the federal Fair Credit Reporting Act.

XVI. ADDITIONAL PROVISIONS

A. Assignment

The City may assign its rights and delegate its duties hereunder without the consent of Owner. Upon such assignment the City shall notify the Owner.

B. Purchase of Other Residential Real Estate

The Owner covenants that they have not and will not execute any other agreement to purchase or purchase any other residential real property during their ownership of the Property.

C. Severability

If any one or more of the provisions contained in this Covenant shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Covenant and this Covenant be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

D. Choice of Law; Venue

The terms of this Covenant shall be interpreted under the laws of the State of California.

E. Notices

All notices required herein shall be sent by certified mail, return receipt requested, to the Owner at the address of the Property and to the City at: Community Development Department, Attn: Housing Programs, City of Santa Barbara, P.O. Box 1990, Santa Barbara, CA 93102-1990, or such other address that the City may subsequently provide in writing to the Owner.

F. Recordation of Request for Notice of Default, Request for Notice of Delinquency

Owner agrees to permit the City to record a Request for Notice of Default and a Request for Notice of Delinquency at any time.

G. Conflict of Terms Clause

This Covenant is a document that is required in implementation of the AHPP. In the event of inconsistencies between this Covenant and the City's policies as described in the most recently published Affordable Housing Policies and Procedures, as amended from time to time, then the terms and

conditions of this Covenant will control. In cases where this Covenant is silent or does not address a certain policy item, the City's policy as described in the Affordable Housing Policies and Procedures Manual in effect at the time of this Covenant shall be applied.

XVII. DECLARATION OF EACH OWNER

- A. The financial and other information provided by me is true and complete.
- B. I have received a copy of this Covenant and agree to comply with the all of the requirements of this Covenant.
- C. I will occupy the Property as my principal residence.
- D. No persons or entity will be on title to the Property other than as listed below as Owner or Non-Occupant Title-holders. I understand that written pre-approval from the City is required before anyone else may be listed on or removed from title.
- E. I understand that any false statements or misrepresentations to the City in this transaction will constitute a default under this covenant, and may constitute fraud.

XVIII. DECLARATION BY NON-OCCUPANT TITLE-HOLDERS (IF ANY)

- A. I appear on the title to the Property as a tenant in common only because I am a co-signer for the purpose of helping the Owner qualify for the City-approved purchase money loan. My equity interest in the Property will not be greater than one percent (1%) of the total equity of all owners of the Property, and I will receive no money from the sale of the property in excess of this one percent, except as provided in Section XIX.C below.
- B. I acknowledge and agree that I have not been approved by the City as an eligible transferee, and I am not permitted to occupy the Property at any time, and that my occupancy of the Property will constitute a default under the Covenant.
- C. If I am named in the will of the Owner I may receive an equity interest upon the death of the Owner. However, unless at that time I am certified as an eligible transferee by the City, I will not be permitted to occupy the Property, and will be required to sell my interest to an eligible transferee under the provisions of the Covenant.
- D. I understand that any false statements or misrepresentations to the City in this transaction will constitute a default under this covenant, and may constitute fraud.

XIX. DECLARATION BY CITY

- A. The City has reviewed the financial information and other information submitted by the undersigned Owner. Based on this information the City has found the Owner to be eligible as required by the Covenant.
- B. THIS ____-BEDROOM UNIT IS RESTRICTED TO QUALIFIED MODERATE-INCOME OWNERS

IN WITNESS WHEREOF, the Parties have executed this Covenant as of the date first written above.

OWNER:

CITY OF SANTA BARBARA, a body politic:

Community Development Director

NOTE: This Covenant will be recorded; a Notary Public must acknowledge the signature of the parties except for approval as to form and content.

Approved as to form:

Approved as to content:

Sarah Knecht
Assistant City Attorney

Laura Dubbels
Housing & Human Services Manager