

## BORROWER'S DISCLOSURE STATEMENT

### NEIGHBORHOOD STABILIZATION PROGRAM MORTGAGE ASSISTANCE LOAN Contra Costa County

The County of Contra Costa (the "County") is making a loan to you as part of its Down Payment Assistance/Shared Appreciation Loan Program, which is part of a federal Neighborhood Stabilization Program (NSP). The County's loan to you (the "County Loan") is made up of NSP funds from the federal government and is being provided to you to assist you in purchasing your home.

As a condition of the County Loan, the County will require you to sign a Promissory Note and a Deed of Trust (the "County Loan Documents"). The Deed of Trust will be recorded against your property. **The Deed of Trust gives the County the right to sell your home to satisfy the debt if you fail to comply with the terms of the Loan Documents.**

This Borrower's Disclosure Statement is intended to explain the major provisions of the Promissory Note and the Deed of Trust to make sure that you understand their requirements. **You should read all of the County loan documents yourself and become completely familiar with them.**

#### I. THE HOME YOU ARE BUYING WITH THE COUNTY LOAN MUST BE YOUR PRIMARY RESIDENCE

Under the terms of the Promissory Note, the house you buy with the County Loan must be your primary residence. This means that you must live in the house no less than ten months out of each calendar year. In addition, you cannot rent your home to others.

#### II. YOU MUST PAY TAXES, ASSESSMENTS, AND INSURANCE

Under the terms of the Deed of Trust, you are responsible for (1) paying all property taxes and assessments due on the property, (2) removing any liens that may have priority over the Deed of Trust (other than your first mortgage), and (3) purchasing adequate property insurance for your home. Your homeowner's insurance must cover the replacement value of the home.

#### III. REPAYMENT OF COUNTY LOAN FUNDS

The County Loan is a "deferred" loan. This means that you do not have to pay it back until the 30-year term has elapsed. However, if you sell or transfer ownership of the home before you have owned it for thirty years, or if you break the terms of the loan documents, you will be required to pay back the loan immediately.

The County Loan is a shared appreciation loan. This means that, instead of paying a pre-determined rate of interest on the County Loan, you will owe the County a share of any increase in the value of your home that is realized when you sell or transfer the home before the 30-year term has expired. (The amount of any increase in value is the “Appreciation Amount.”)

Under a shared appreciation loan, the County also shares the risk that the value of your home may decrease. This means that if you sell your home before the 30-year term has expired and the value of your home at the time you sell is less than its purchase price, the amount you owe the County to repay the loan in full will be less than the amount you originally borrowed. (The amount of any decrease in value is the “Depreciation Amount.”)

If you transfer ownership of your home to another person by means other than a sale (with the exception of a creditor taking title), the amount you owe the County will be based on the price you paid for your home, the amount of the County Loan, the “fair market value” of the home at the time of transfer, and either the Appreciation Amount or the Depreciation Amount. The fair market value of the home is typically determined by a third party appraiser, although in some instances you and the County may be able to agree on the home’s fair market value without obtaining an appraisal.

Examples of the how much you will owe the County if you sell or transfer your home before thirty years have elapsed are set forth below.<sup>1</sup>

**A. If the value of your house increases.** The County’s share of the Appreciation Amount is based on the amount of the County Loan compared to the original purchase price of your home. The County’s share of the Appreciation Amount is calculated by dividing the amount of the County Loan by the original purchase price that you paid for your home. For example, if the County Loan provided ten percent of the original purchase price of your home, then, when you sell the home, ten percent of the Appreciation Amount is owed to the County as an interest payment.

**EXAMPLE 1** If the price you paid for the home was \$150,000 and you received a County Loan in the amount of \$15,000, the County’s Share of any Appreciation Amount is 10%.

$$\$15,000 \div \$150,000 = 10\%$$

This means that the County will receive 10% of the increase in the value of your home when it is sold. Continuing this example, if you paid \$150,000 for the house and borrowed \$15,000 from the County, and the house sold for \$160,000, the amount you would owe the County would be as follows:

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<sup>1</sup> Numerical examples are included in this Disclosure Statement to help you better understand the concepts, terms, and provisions of your County loan. Please be aware that these are simply to show how things work and that they are not intended to represent your specific situation. If you duplicate the examples with a calculator, you may not get exactly the same answers. Any differences are probably due to how your calculator “rounds-off” numbers.

Sale Price	\$160,000
Original Purchase Price	- <u>150,000</u>
Appreciation Amount	\$ 10,000
County's 10% Share of Appreciation	\$ <u>1,000</u>
Your Share of Appreciation	\$ 9,000

Amount due to County upon sale:

Original Loan Amount	\$ 15,000
County Share of Appreciation	<u>1,000</u> ±

**TOTAL AMOUNT YOU OWE COUNTY** \$ 16,000

**B. If the value of your house decreases.** If the price you receive for your home is less than the original purchase price, the amount you owe the County upon the sale of the home will be decreased by the County's share of the Depreciation Amount. (The County's percentage share would be calculated in the same manner as described above. That is, if the purchase price of the house was \$150,000 and the County Loan was \$15,000, the County's share is 10%.) In this example, if you were able to sell your house for \$145,000, the Depreciation Amount would be \$5,000 and the amount you would owe the County would be calculated as follows:

**EXAMPLE 2**

Sale Price	\$145,000
Original Purchase Price	- <u>150,000</u>
Depreciation Amount	\$ 5,000
County's 10% Share of Depreciation	\$ 500
Your Share of Depreciation	4,500

Amount due to County upon sale:

Original County Loan Amount	\$ 15,000
County's Share of Depreciation	- <u>500</u>

**TOTAL AMOUNT YOU OWE COUNTY** \$ 14,500

**C. Fair Market Value.** Under the terms of the Promissory Note, there are two methods that can be used to determine the fair market value of your home. Under the first method, the County will choose a real estate appraiser to determine the fair market value. If possible, the appraisal will be based on the sales prices of homes similar to yours that have been sold in your area during the preceding three-month period.

Under the second method, you and the County may establish the fair market value of your home by mutual agreement. Both you and the County would have to agree to use this method and to the final fair market value amount. If you and the County fail to agree on the fair market value, either you or the County can require use of the appraisal method.

If an appraiser is used, the cost of the appraisal will be paid by you.

#### IV. PREPAYMENT OF COUNTY LOAN

You have the right to prepay part or all of the County Loan. If you are prepaying the original loan amount in full, the total amount due to the County (that is, the principal balance and the shared appreciation or depreciation) will be calculated as described in Section III.A and III.B above. If you chose to prepay the loan in part, a portion of the prepayment will be allocated to principal (and reduce the outstanding principal amount) and the balance will be considered a payment of the County's share of the Appreciation Amount. The allocation of the payment between principal and the County's share of the Appreciation Amount will depend on the fair market value of your home at the time of prepayment and the percentage share of the appreciation that is due to the County and will be determined as follows:

**EXAMPLE 3** If the price you paid for the home was \$150,000, and you received a County Loan in the amount of \$15,000, the County's share of any Appreciation Amount is 10%.

$$\$15,000 \div \$150,000 = 10\%$$

If at the time of prepayment the fair market value of the home is \$175,000, the County's share of the Appreciation Amount would be calculated as follows:

Fair Market Value of Home (established by new appraisal)	\$ 175,000
Original Purchase Price	<u>-150,000</u>
Total Appreciation Amount	\$ 25,000
County Share of Appreciation (Shared appreciation = 10%)	\$ 2,500

If you elect to prepay \$5,000 of the County Loan, your \$5,000 prepayment would be allocated between principal and shared appreciation in the following manner:

1. Assume that you are prepaying the entire balance and the entire County's share of Appreciation Amount. In this example, that would be \$15,000 + \$2,500. That total is \$17,500.
2. Of that \$17,500 payment, \$15,000 is principal. Calculate the percentage of the total payment that is principal by dividing \$15,000 by \$17,500. The result is .8571, or 85.71% of the total payment.
3. Since 85.71% of the total payment is principal, then 14.29% of the payment is the County share of the Appreciation Amount. (100% – 85.71% = 14.29%.)
4. Apply these percentages to your \$5,000 prepayment.  

$$\$5,000 \times .8571 = \$4,285.50 \quad \text{Principal amount of your prepayment.}$$

$$\$5,000 \times .1429 = \$714.50 \quad \text{County's share of Appreciation Amount.}$$
5. Determine the amount you still owe after the prepayment:  

$$\$15,000 - \$4,285.50 = \$10,714.50$$
6. Calculate your new shared appreciation percentage by dividing the amount you still owe by the original purchase price. In this case,  

$$\$10,714.50 \div \$150,000 = 7.14\%$$

The next time you make a loan payment, the amount of shared appreciation you will owe will be based on a shared appreciation percentage of 7.14%.

## V. MAJOR IMPROVEMENTS YOU MAKE TO THE HOME

Many homeowners make investments in their home to increase its value. If you choose to do this AND you obtain the County's approval of the improvement in advance, you will not be required to share with the County the appreciated value that results from that improvement. That means that if, for example, you remodel a bath and an appraiser determines that, with the updated bath, the home is worth \$175,000, and that, without the updated bath, the home would have been worth \$165,000, the County will not be entitled to a share of the \$10,000 increased value that resulted from the remodeled bath. Please note that to qualify for this treatment, (1) you must obtain the County's prior approval of the project and, (2) the cost of the improvement must be at least one percent (1%) of the purchase price of your home.

## VI. DEFERRED MAINTENANCE OR DAMAGE

In the event you fail to adequately maintain your home, or if it is damaged, such that it is worth less than it would have been had it been properly maintained, the calculation of the Appreciation Amount may be adjusted, at the County's election. That is, when determining the Appreciation Amount, the County may require you to pay to the County the County's share of the appreciation based on the value that your home would have had if it had been properly maintained.

## VII. COUNTY'S RIGHTS ARE LEGALLY ENFORCEABLE

By accepting the County Loan, you agree to meet all of the conditions of the County Loan Documents. If you violate any provision of the County Loan Documents, you will be in default under your County Loan. In addition, if you have any other loan on your home (such as your first mortgage loan), and you violate any conditions of that loan, you will be in default under your County Loan. If you do not correct the violation that created the default, the County could require you to repay the County Loan immediately. The County could also go to court to obtain a court order to compel you to comply with the provisions of the County Loan Documents. In addition, if you fail to meet the requirements of the County Loan Documents, the County has the right to foreclose and take your home.

## VIII. RESTRICTIONS ON REFINANCING FIRST MORTGAGE; NO JUNIOR LOANS

If you refinance your first mortgage, the new principal amount of your first mortgage may not exceed the sum of (1) the amount that was due under your first mortgage at the time of refinancing, plus (2) closing costs. In addition, your new first mortgage must be a fixed-rate, 30-year, fully amortizing loan. The new first mortgage may only be made by a bank, credit union or savings and loan association that is approved in advance by the County. If you choose to refinance your first mortgage for a larger amount or through a lender other than a bank, credit union or savings and loan association approved in advance by the County, at the closing of the new loan, you will be required to repay the County in full (the outstanding principal and the County's Share of any appreciation). You are also not permitted to have mortgage loans or equity lines of credit that are "junior" to the County's Deed of Trust.

## IX. COUNTY'S RIGHT OF ENTRY

Under the terms of the Promissory Note, you agree to allow authorized representatives of the County to enter your home at reasonable times and in a reasonable manner in order to determine that you are complying with the provisions of the County Loan Documents.

