BUYER'S DISCLOSURE STATEMENT

SHARED EQUITY PURCHASE PROGRAM
City of San Luis Obispo

As a participant in the City of San Luis Obispo's Shared Equity Purchase Program, you are buying a home at an affordable price that is below Fair Market Value. In exchange for giving you the opportunity to buy the home at an Affordable Price, the City will require you to sign a Promissory Note, Deed of Trust and an Occupancy, Use, Refinancing, and Shared Equity Agreement (the "Agreement"). **The Agreement and the Deed of Trust will be recorded against your property**. These documents will ensure that a specific percentage of the difference between the Fair Market Value and the Affordable Price is repaid, along with any interest, in the event you sell the home to a non-Below Market Rate (BMR) Purchaser.

The Promissory Note, Deed of Trust and the Agreement set forth many conditions that you must meet, including these major provisions:

- Your home must be sole and principal place of residence. You are not allowed to lease or rent your home to anyone (see Section 1 of the Agreement).

- Your home, including landscaping, must be kept in good condition and repair and maintained in a neat, clean, and orderly condition and in accordance with all applicable laws (see Section 2 of the Agreement).

- You agree to keep a standard homeowner's insurance policy. Your insurance policy must name the City as an "additional insured" and be in an amount equal to the replacement value of the home (see Section 2 of the Agreement).

- When you are ready to sell your home, you must give the City the option to purchase your home at a price that may be lower than its Fair Market Value. If the City does not exercise this option, you may sell your home to a BMR Purchaser who meets certain eligibility requirements, set forth in Section 7 of the Agreement. The sale price in this case shall comply with the City's Below Market Rate Housing Standards. If you sell your home to a non-BMR Purchaser, you must pay the City a share of your home's appreciation in value and the difference between the Affordable Price and the Appraised Fair Market Value of your home at the time you purchased the home. An example is described in this disclosure (see Section 8 of the Agreement).

- The Agreement places controls on the refinancing of your first mortgage loan and does not allow you to take out a junior loan or equity line of credit (see Section 10 of the Agreement).

This Disclosure Statement explains only the major provisions of the Promissory Note, Deed of Trust, and Agreement. **You should, of course, read the entire Promissory Note, the Agreement, and the Deed of Trust and become completely**

familiar with them.[1] If there is any conflict between this Disclosure Statement and the Agreement, Deed of Trust, and Promissory Note, the terms of the Agreement, Deed of Trust, and Promissory Note will prevail.

A. REQUIREMENTS IN EFFECT FOR 45 YEARS

The requirements in the Agreement apply until the earlier of (i) forty-five years from the date of the Agreements; or (ii) the date you sell or Transfer your home and pay all amounts due to the City.

The City will work with the Buyer to update the recorded 2019 Occupancy, Use, Refinancing, and Shared Equity Agreement to the 2022 Occupancy, Use, Refinancing, and Shared Equity Agreement to match the methods of calculation of the Equity Share Reconveyance as outlined in the Deed of Trust and this Disclosure Statement.

B. PRINCIPAL RESIDENCE; NO RENTAL OF YOUR HOME

Your home must be your sole principal place of residence. Your home may not be rented or leased, nor may you allow it to remain vacant other than as necessary to repair the Property from time to time.

If you violate this provision, the City may sue to prevent you from renting out your home, and you will owe the City any rent you have received. You will also be in default under the Agreement and the Promissory Note, and the City may require you to immediately pay all amounts due to the City.

C. MAINTAINING YOUR HOME/ PROPERTY INSURANCE

By signing the Agreement, you agree to keep your home and landscaping in good repair and in neat, clean, and orderly condition. You cannot allow the property to deteriorate so that it would be defined as a nuisance by the San Luis Obispo Municipal Code, or permit your property to be used for the commission of any misdemeanor or felony. You also agree to keep a standard homeowner's insurance policy, with the City named as an additional insured. The insurance policy must have a value at least equal to the replacement value of the home. Every five years (or every year, if provided by the policy), the replacement value will be reviewed and adjusted as needed.

D. AMOUNT OWED TO CITY

The Promissory Note that you must sign shows that you owe the City the difference between the Affordable Price at which you purchased your home and its Appraised Fair Market Value (the "Below Market Benefit"), plus any amount owed for the Shared Equity Percentage.

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[1] *Numerical examples are included in this Disclosure Statement to help you better understand the concepts, terms, and provisions of the Buyer's Agreement and Promissory Note. Please be aware that these are simply to show how things work and that they are not intended to represent your specific situation. Numbers have been rounded to the nearest $100 so that they are easier to understand.*

The Shared Equity Percentage is calculated by dividing the Below Market Benefit by the appraised fair market value of your home at the time you bought it. For instance, if the initial appraised fair market value of your home when you bought it was $400,000 and the Affordable Price was $280,000, the amount of the Below Market Benefit would be $120,000.

Below Market Benefit ÷ Initial Appraised Fair Market Value = Shared Equity %

$120,000 ÷ $400,000 = 30%

In addition to the Shared Equity Percentage, you may owe the City an Equity Recapture Fee if you sell the property to a non-BMR Purchaser. The Equity Recapture Fee is a percentage of the appreciation in value of your home. The longer you own your home, the lower the Equity Recapture Fee you will owe the City. The table below shows the Equity Recapture Fee over time.

YEAR	% OF EQUITY BUILD-UP RECAPTURED
0-3	**100% + City's Equity Share**
4	**75% + City's Equity Share**
5	**50% + City's Equity Share**
6	**25% + City's Equity Share**
7 and after	**0% + City's Equity Share**

The examples below demonstrate that it is very advantageous to own your home for seven years or more.

EXAMPLE 1 You sell your home after living in it for 7 years.

Because you have owned your home for 7 years or more, the City will receive the Below Market Benefit, and 30 percent (Shared Equity Percentage) of the difference between the Initial Appraised Value of the home at the time of purchase and the price at which you sell it (the "Fair Market Resale Value"), minus your real estate commission and closing costs (the "Net Proceeds of Appreciation"). The real estate commission and closing costs shall not exceed 6 percent of the Sales Price. You would not owe the City the Equity Recapture Fee in this example. Table 1 below provides a detailed description of the Payoff Calculation for Equity Share Reconveyance in the example of a Resale Price of $600,000 after 7 years:

Table 1: Payoff Calculation for Equity Share Reconveyance 7 Year Example				
$ 400,000	-	$ 280,000	=	$ 120,000
Initial Appraised Market Value		**Initial Affordable Price**		**Below Market Benefit**

$ 600,000	-	$ 280,000	=	$ 320,000
Resale Price		**Initial Affordable Price**		**Net Proceeds of Sale**
$ 600,000	-	$ 400,000	=	$ 200,000
Resale Price		**Initial Appraised Value**		**Appreciation**
$ 200,000	-	$ 36,000	=	$ 164,000
Appreciation		**6% Max Closing Cost**		**Net Proceeds of Appreciation**
$ 164,000	*	30%	=	$ 49,200
Net Proceeds of Appreciation		**Shared Equity Percentage**		**City Equity Share**
$ 49,200	+	$ 120,000	=	$ 169,200
City Equity Share Total		**Below Market Benefit**		**Total City Payoff**
$ 600,000	-	$ 169,200	=	$ 430,800
Resale Price		**Total City Payoff**		**Seller's Proceeds**

The total Equity Share Reconveyance of this example is as follows:

TOTAL AMOUNT YOU OWE CITY: $ 169,200

TOTAL PROCEEDS TO YOU: $ 430,800

You would pay your real estate commission, bank mortgage, and all other costs out of the proceeds to you.

EXAMPLE 2 You sell your home after living in it for 4 years.

Because you have owned your home for only 4 years, the City will receive the Below Market Benefit, and 30 percent (Shared Equity Percentage) of the difference between the Initial Appraised Value of the home at the time of purchase and the price at which you sell it (the “Fair Market Resale Value”), minus your real estate commission and closing costs (the "Net Proceeds of Appreciation"). The real estate commission and closing costs shall not exceed 6 percent of the Sales Price. In this example you would owe the City the Equity Recapture Fee, that is 75 percent of the Net Proceeds of Appreciation in addition to the Shared Equity Percentage. The combined amount of the Equity Recapture Fee and the Shared Equity Percentage shall not exceed 100% of the Net Proceeds of Appreciation. Table 2 below provides a detailed description of the Payoff Calculation for Equity Share Reconveyance in the example of a Resale Price of $500,000 after 4 years:

Table 2: Payoff Calculation for Equity Share Reconveyance 4 Year Example				
$ 400,000.00		$ 280,000.00		$ 120,000.00
Initial Appraised Market Value	-	**Initial Affordable Price**	=	**Below Market Benefit**
$ 500,000		$ 280,000		$ 220,000
Fair Market Resale Value	-	**Initial Affordable Price**	=	**Net Proceeds of Sale**
$ 500,000		$ 400,000		$ 100,000
Fair Market Resale Value	-	**Initial Appraised Value**	=	**Appreciation**
$ 100,000		$ 30,000		$ 70,000
Appreciation	-	**6% Max Closing Cost**	=	**Net Proceeds of Appreciation**
$ 70,000		75%		$ 52,500
Net Proceeds of Appreciation	*	**Equity Recapture Percentage (Year 4)**	=	**Equity Recapture Fee**
$ 70,000		30%		$ 21,000
Net Proceeds of Appreciation	*	**Shared Equity Percentage**	=	**City Equity Share**
$ 52,500		$ 21,000		$ 70,000
Equity Recapture Fee	+	**City Equity Share**	=	**City Equity Share Total (100% Max)**
$ 70,000		$ 120,000		$ 190,000
City Equity Share Total	+	**Below Market Benefit**	=	**Total City Payoff**
$ 500,000		$ 190,000		$ 310,000
Fair Market Resale Value	-	**Total City Payoff**	=	**Seller's Proceeds**

The total Equity Share Reconveyance of this example is as follows:

TOTAL AMOUNT YOU OWE CITY: $ 190,000

TOTAL PROCEEDS TO YOU: $ 310,000

You would pay your real estate commission, bank mortgage, and all other costs out of the proceeds to you, which may not be sufficient to pay all these costs. Therefore, retaining ownership of your home for 7 years or more results in substantial benefits to you.

E. SELLING YOUR HOME

Under the terms of the Agreement, when you decide to sell your home, you must notify the City. You should not engage the services of a realtor or broker before notifying the City that you have decided to sell your home, because the City may opt to purchase your home at the Maximum Resale Price described in Section 5 of the Agreement. The City may also transfer its right to purchase your home to an BMR Purchaser, or you may sell your home to an BMR Purchaser if the City does not exercise its option.

If you sell your home to a non-BMR Purchaser, you will be required to repay to the City a portion of the increase in value of your home that has occurred since you purchased it, plus the Below Market Benefit, as noted above. You must also provide the City with the sales contract, the appraisal, amount of any real estate commission, the final escrow statement, and a certification from you and the buyer that you did not receive any payment in addition to that shown in the sales contract. You must sell the property at a price that is at least 95% of Fair Market Value, or the City may determine that the Fair Market Value is the number to be used in determining the amount of money you must repay to the City.

Fair Market Value can be established by a real estate appraiser approved by the City. If possible, the appraisal will be based on the sales prices of homes similar to yours which are sold in your area during the preceding three (3)-month period. You will be responsible for the cost of an appraisal.

You and the City may also set the Fair Market Value of your home by mutual agreement based on comparable sales instead of relying on an appraiser. Both you and the City would have to agree on the final Fair Market Value amount. If you and the City fail to agree on the Fair Market Value, either you or the City can require use of the appraisal method.

You must pay all amounts due to the City when you sell your home, in accordance with Section D of this Disclosure Statement.

F. REFINANCE OF YOUR FIRST MORTGAGE; NO JUNIOR LOANS

The Agreement allows you to refinance your first mortgage loan in certain instances. As a requirement of refinancing, first mortgage lenders usually require that the City subordinate its Agreements to them. The City will only subordinate the Agreement and City Deed of Trust if the following conditions are met:

1. Following the refinance, all the debt on your property, including the principal and Contingent Interest on the City Loan, must not exceed 90 percent of the value of the property. However, if the *existing* balance on your *first* mortgage exceeds 90 percent of your property's value, the City will permit the refinancing if the new loan will reduce your monthly mortgage payments.

2. The new first mortgage loan must be fully amortized with a fixed rate of interest. The City will not subordinate to interest-only loans, so-called "option Adjustable-Rate Mortgage (ARM)," loans that permit negative amortization, or loans that require a balloon payment after a period of time.

3. The proceeds of the refinancing may only be used to pay off your first mortgage and to pay for closing costs and home improvements. The new loan may not exceed your ability to pay.

You are not permitted to take out a junior loan or equity line of credit. If you take out a junior loan, you will be in default under the Agreement and the Deed of Trust.

G. DEFAULT PROVISIONS

If you violate any provisions of the Agreement, the Promissory Note, or the Deed of Trust, you are considered to be in default under the Agreement. Also, if you default under any other loan on the home, such as your first mortgage loan, you would also be considered to be in default under the Agreement. If you do not correct the violation, the City could require you to immediately pay the City all amounts due to it. The City could also go to court and get a court order to enforce the provisions of the Agreement. In addition, if you fail to meet the requirements of the Agreement, the City has the right to foreclose and take your home.

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Please sign the enclosed copy of this Borrower Disclosure Statement in the space provided below and return it to: City of San Luis Obispo, 919 Palm Street, San Luis Obispo, 93401. Attention: Community Development Director.

I have read and understand the above Borrower Disclosure Statement.

By: ______________________________ Date: ______________________
Signature of Borrower

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Printed Name of Borrower

______________________________ Date: ______________________
Signature of Borrower

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Printed Name of Borrower