CITY OF STOCKTON

HOMEBUYER'S DISCLOSURE STATEMENT

Property Address: ____

Purchase Price: $ ____________________

The City of Stockton (the "City") will provide the Borrower with a second mortgage to enable the Borrower to purchase a home. In exchange, the City will require the Borrower to sign a Promissory Note, Deed of Trust, and Regulatory Agreement. **The Deed of Trust and Regulatory Agreement will be recorded against the property**. These documents are enforceable by the City.

In general, the Promissory Note, Deed of Trust, and a Regulatory Agreement set forth conditions that the Borrower must meet, including but not limited to the following:

- The Regulatory Agreement requires the Borrower to live in the home as the Borrower's principal place of residence. and prohibits the Borrower from renting-out the home.
- The Regulatory Agreement places controls on the sale of the home. The Borrower must follow certain steps and procedures when it is decided that the home is to be sold.
- The second mortgage loan (the "Loan) is due and payable upon any default under the Promissory Note, Deed of Trust, or Regulatory Agreement and upon any transfer of the home.

The purpose of the Regulatory Agreement is to ensure that the goal - to help lower income households own their own homes - continues to be met by keeping the home affordable to other low, moderate, and middle-income households should the Borrower choose to sell or move. The City has helped the Borrower buy a home, and wish to help others as well.

This Disclosure Statement explains the major provision of the Regulatory Agreement so that the Borrower will understand their requirements. **The Borrower, of course, must read the entire Promissory Note, Deed of Trust, and Regulatory Agreement and become completely familiar with them.**

A. REQUIREMENTS IN EFFECT FOR 30-YEAR TERM

The requirements that are in the Regulatory Agreement apply until the earlier of (i) thirty (30) years from the date of the Regulatory Agreement, or (ii) the date the Borrower sells or transfers the home in accordance with the Regulatory Agreement and Deed of Trust. If you sell or transfer the home prior to the thirty-year term, the original loan amount plus accrued interest will be due immediately.

B. PRIMARY RESIDENCE AND LEASING YOUR HOME

The home must be the Borrower's main place of residence. This means the Borrower must live in the home for at least ten (10) months out of each calendar year. The Borrower is not allowed to lease or rent the home to anyone. If this provision is violated, the City may sue to prevent the Borrower from renting out the home and the Borrower will owe the City any rent received. The Borrower will also be in default under the Regulatory Agreement and

Promissory Note and the City may require the Borrower to repay the Loan.

C. MAINTAINING YOUR HOME/PROPERTY INSURANCE

By signing the Regulatory Agreement, the Borrower agrees to keep the home and landscaping in good repair and in neat, clean, and orderly condition, and to prevent deterioration of the home. The Borrower also agrees to keep a standard homeowner's insurance policy, with the City named as additional insureds. The insurance policy shall be in an amount equal to the replacement value of the home. Every five (5) years (or every year, if provided by the policy), the replacement value will be reviewed and adjusted as needed.

D. SELLING YOUR HOME

Under the terms of the Regulatory Agreement, when the Borrower sells the home within the thirty (30)-year term a value equal to the original loan value, plus accrued interest must be paid to the City.

E. REPAYMENT OF LOAN

The loan from the City is a deferred Loan. This means that the Borrower does not have to pay it back as long as the Borrower owns the home within the thirty (30) years, and the Borrower does not violate any of the terms of the Promissory Note, Deed of Trust, and Regulatory Agreement. The City may callback the Loan for review to determine if a payment can be made on the Loan. As soon as the home is sold though, or if the terms of the loan documents or Regulatory Agreement are broken, the Loan will be due and the Borrower will have to pay it back.

1. PREPAYMENT OF LOAN

The Borrower has the right to prepay part, or the entire amount of Loan. In the case of prepayment, the Borrower will be responsible for paying the cost of the appraisal. If the Borrower prepays only a part of the Loan, the payment made will be applied to the principle portion of the Loan.

F. CAPITAL IMPROVEMENTS MADE TO THE HOME

Eligible Capital Improvements conform with applicable building codes, and extend the useful life or improve the functionality of your home. In order for improvements to qualify as Eligible Capital Improvements, the Borrower must obtain written approval of the improvements by the City before the improvements are made. Further, the initial cost of such improvements must be at least one percent (1%) of the original purchase price and the Borrower must obtain a building permit for the improvements.

G. DEFAULT PROVISIONS

When the Borrower accepted the Loan, the Borrower agreed to meet all the conditions of all the Loan documents, including the Promissory Note, Deed of Trust, and Regulatory Agreement. If the Borrower violates any provisions of the documents, the Borrower is considered to be in default under the Loan. Also, if the Borrower defaults under any other loan on the home, such as the first mortgage, the Borrower will also be considered to be in default under the City Loan. If the Borrower does not correct the violation, the City may require the Borrower to repay the City Loan. The City could also obtain a court order to enforce the provisions of the City Loan documents, which may result in a foreclosure on the home.

H. <u>REFINANCE OF THE FIRST MORTGAGE</u>

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

1. The refinancing reduces monthly housing payments or the proceeds of the refinance are used to make Eligible Capital Improvements.

2. The refinance does not cause the amount that the Borrower elects to refinance to exceed the then outstanding balance of principal and interest (plus refinancing and closing costs) of the existing first mortgage loan plus the cost of the Eligible Capital Improvements that you plan to make, if any.

3. The Borrower does not receive cash proceeds from the refinance, unless such cash is used to pay for Eligible Capital Improvements through escrow.

4. The refinance does not cause the Borrower's loan to value ratio to exceed the loan to value ratio that existed when the Borrower first purchased the home (when calculated by comparing the total debt secured by the purchase price paid for the home).

5. The City determines that the total housing cost after the refinance will not be unaffordable to the Borrower.

If the Borrower refinances the first mortgage loan without meeting the above requirements, the Borrower will be in default under the Regulatory Agreement and Deed of Trust. If the Borrower refinances the home to fund Eligible Capital Improvements, the City will require that the Borrower provides it with evidence that the Borrower will make and pay for such improvements, usually through an escrow account.

I. <u>JUNIOR LOANS AND EQUITY LINE OF CREDIT</u>

The Regulatory Agreement will allow the Borrower to borrow a junior loan (which means a third mortgage on the home) or take out an equity line of credit <u>only</u> if either:

1. The following conditions are met:

   a. All of the proceeds of the junior loan or equity line of credit are used to make Eligible Capital Improvements.

   b. The junior loan or equity line of credit does not cause the loan to value ratio to exceed the loan to value ratio that existed when the Borrower first purchased the home (when calculated against the purchase price the Borrower paid for the home).

   c. The City determines that the total housing cost after the junior loan or equity line of credit will not be unaffordable to the Borrower.

OR

2. The City determines that such a loan is affordable to the Borrower and the loan or line of credit is part of another public agency's program that is designed to increase affordable homeownership.

If the Borrower takes out a junior loan or equity line of credit without meeting the above requirements, the Borrower will be in default under the Regulatory Agreement and Deed of Trust. If a junior loan or equity line of credit is taken out to fund Eligible Capital Improvements, the City will require that the Borrower provides it with evidence that the Borrower will make and pay for such improvements, usually through an escrow account.

J. INHERITANCE

The person inheriting the home will have to sell or refinance the home to pay off the City Loan.

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Please sign this Buyer's Disclosure Statement in the space provided below, and keep a signed copy for your records, and return the original to the City at the following:

City of Stockton
Economic Development Department
400 East Main Street, 4th Floor
Stockton, CA 95202
Attention: Housing Division

I have read, and understand the above Buyer's Disclosure Statement.

By: ____________________________________ Dated:______
Signature of Buyer

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Print Name of Buyer

By: ____________________________________ Dated:______
Signature of Buyer

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Print Name of Buyer