

A. Establishment of the Initial Purchase Price

The developer shall establish the sales price for the affordable unit based upon an the median income and total housing cost as described in the AHPP (9.56.100) and the income-qualifying household's ability to obtain conventional bank financing and to service debt at a front-end ratio of no less than a 33 percent and no greater than a 38 percent¹.

The conventional financing shall conform to all of the following terms:

Loan Term:	30 Years
Interest Rate:	Fixed
Minimum Down payment:	5%
Min./Max. Front End Debt-to-Income Ratio ¹ :	33% min./38% max.
Maximum Back End Debt-to-Income Ratio ² :	41%

¹ Front End Ratio: ratio of total monthly housing costs (including mortgage principal and interest, property taxes, property insurance, homeowners' association dues and mortgage insurance, if applicable – to total gross household income. Chapter 9.56 of the Municipal Code restricts the front-end ratio to no more than 38%.

² Back End Ratio: ratio of total monthly housing costs (including mortgage principal and interest, property taxes, property insurance, homeowners' association dues and mortgage insurance, if applicable) plus other monthly payments on long-term household debt to gross household income.

Note: The borrower *must* be income-qualified pursuant to Chapter 9.56 of the Municipal Code.

The lending criteria used by the private lender must be reasonable and customary and shall be subject to review and approval by the City Housing Division prior to completion of the purchase transaction. Moreover, any purchase price for an affordable unit underwritten with a front-end ratio of less than 33 percent or a back-end ratio of more than 41 percent (the maximum generally required by the secondary mortgage market) will also require review and reasonable approval by the City prior to completion of the purchase transaction.

B. Re-Sale of an Affordable Unit to a Subsequent Purchaser

1. First Right of Refusal to the City

Throughout the 55-year period of the Agreement Imposing Restrictions on Real Property, the City shall have the first opportunity to purchase affordable for-sale units created pursuant to the On-Site Affordable Unit Option or the Off-Site Affordable Unit Option (“Option to Purchase”). Owners wishing to sell their units shall notify the City in writing at least 60 days before the unit is offered for sale to another qualifying party. The seller shall ensure that the unit is clean, in good repair and is available to be shown to prospective buyers. Any Option-related time periods in favor of the City shall be tolled until these conditions are met to the City’s reasonable satisfaction.

The City shall have 60 days to notify the seller of its intent to exercise the Option to Purchase, either by City purchase, by its designee (e.g., a non-profit affordable housing developer), or by referral of a qualified moderate-income buyer. (See below for the method for calculating the subsequent purchase price.) The City or other qualified buyer shall close escrow within 90 days from the date that the City notifies seller of its intent to exercise the Option to Purchase. If the City elects to assign its Option to Purchase, the opening of escrow may be deferred for up to 30 additional days to enable the City to effectuate the assignment.

In the event that the City does not exercise the Option to Purchase, or an offer to purchase by the City or a qualified buyer is not accepted by the seller, or once accepted, if an escrow account contemplating a sale shall not have been opened within 60 days of a purchase offer, the Option shall terminate and the owner may sell the unit to any income qualifying party at a price as set forth below. Seller shall not refuse an offer by an income qualified buyer, subject to the price restrictions set forth below. Closing costs shall be divided between seller and buyer as is customary for like real estate transactions in Santa Monica at the time that escrow is opened.

2. Maximum Subsequent Selling Price

The resale price restriction will provide that the price for resale of the affordable unit shall be calculated using the same formula and factors set forth in Section 6A. The monthly housing cost shall include mortgage principal and interest, property taxes, property insurance, homeowners' association dues and mortgage insurance, if applicable.

3. Continuous Use as a Primary Residence

Each purchaser of an affordable unit shall certify, prior to the close of escrow, in a form acceptable to the City that the unit is being purchased and shall be maintained as the purchaser's primary residence. Failure of the purchaser to maintain eligibility for a homeowner's exemption from property tax shall be construed as evidence that the unit is not the primary residence of the purchaser.

C. Subordination

At the request of the moderate-income household's lender, the City may subordinate the foregoing income eligibility and resale price restrictions to a first Deed of Trust at the time of purchase, provided that the Deed of Trust does not exceed the purchase price of the unit.

D. Default and Foreclosure

A Request for Notice of Default shall be recorded along with the Agreement Imposing Restrictions on Real Property. The Agreement will provide that any Notice of Default will constitute an owner's Notice of Intent to Sell, and that the City may exercise its Option to Purchase. In the event that the City does not exercise its Option and the unit is foreclosed upon, proceeds of the foreclosure sale shall be used first to satisfy the lender's lien(s), and any surplus proceeds, up to the amount that the owner would have received had there been no foreclosure, shall be paid to the owner. The remaining balance of any surplus shall be paid to the City for deposit into the Citywide Affordable Housing Trust Fund.