



The Housing Trust of Santa Clara County and American Home Equity Partners

Innovative Homeownership Solutions

Equity Share Co-Investment (ESCO) Program Guide

PROGRAM OVERVIEW

In conjunction with American Home Equity Partners (AHEP), the Housing Trust of Santa Clara County (the “Housing Trust”) has created an *innovative, equity-based home financing solution* called the **Equity Share Co-Investment (ESCO)** Program (the “ESCO Program”).

The **ESCO Program** will provide qualified first-time homebuyers with up to half the down payment required for a home purchase, enabling homebuyers to step onto the property ladder sooner and start building home equity years before they otherwise would have been able to. Using the **ESCO Program**, homebuyers can purchase a home in a more affordable and sustainable way with a reduced upfront debt burden.

A homebuyer will provide a down payment equal to 5-15% of the home’s purchase price, and the Housing Trust will supplement this with an equivalent amount up to 10% of the home’s purchase price as a long-term investment (the “ESCO Principal Amount”). The Housing Trust will invest a minimum of \$10,000 and a maximum of \$75,000 in any Property.

For example, if a homebuyer has a \$40,000 down payment to buy a \$400,000 home (10% of the home’s purchase price), the Housing Trust will provide an additional \$40,000 as an **ESCO loan**, to increase the total down payment to \$80,000, or 20% of the home’s purchase price. The homebuyer will finance the remainder, getting an 80% loan-to-value (LTV) first mortgage.

There are no current interest payments due on the ESCO loan. Instead, homebuyers will share a portion of their home’s appreciation with the Housing Trust at the time of sale, prepayment or refinancing (the “ESCO Equity Share”).

The Housing Trust will use the ESCO Equity Share it receives for its affordable housing programs.

QUALIFICATIONS

Applicants to the **ESCO Program** will be asked to fill out a detailed application form. In order to qualify for the **ESCO Program**, a homebuyer must meet all of the following requirements:

1. The homebuyer must not have owned a home during the past 36 months in Santa Clara County, CA.
2. A homebuyer's Total Household Annual Gross Income cannot be more than 140% of the Area Media Income (AMI) for Santa Clara County. Please see **Appendix A** for detailed information on the income limits of the **ESCO Program**.
3. All homebuyers' credit (FICO) scores must be 650 or greater, as defined by the Fair-Isaac scoring system.
4. The homebuyer's total "Front-End" Home Mortgage Debt to Income Ratio cannot be greater than 38%. This means that when all of the homebuyer's home mortgage debt service is added up, including first and second mortgage principal and interest payments, property taxes, property insurance and Private Mortgage Insurance (PMI), if applicable, those total monthly payments **must** not be greater than 38% of the homebuyer's Total Monthly Household Gross Income.
5. The Homebuyer's total "Back-End" Household Debt to Income Ratio cannot be more than 45%. This means that when all of a homebuyer's debts are added up, including the Front-End Debts (including first and second mortgage principal and interest payments, property taxes, property insurance and Private Mortgage Insurance (PMI), if applicable), **plus** any car payments, credit card payments and any and all other debts, loans, charge accounts, and business expenses, if applicable, etc., those total monthly payments added together must not be greater than 45% of the homebuyer's Total Monthly Household Gross Income.
6. A homebuyer may purchase a single family home, townhouse, condominium, or any other dwelling suitable for housing one family, and the dwelling must be occupied as a primary residence (the "Property"). Please see **Appendix B** for detailed occupancy requirements. Vacation homes, investment properties, multiple family dwellings and life care facilities do not qualify. The residence must be located geographically within Santa Clara County, California.
7. The homebuyer must provide a minimum down payment equivalent to 5% of the purchase price of the home, and the homebuyer can put down up to 15% of the purchase price of the home. This amount will be supplemented by the Housing

Trust by an equivalent amount up to 10% of the Property purchase price. The Housing Trust will invest a minimum of \$10,000 and a maximum of \$75,000 in any Property.

8. The homebuyer must demonstrate continuous employment for 24 months prior to application. Changing jobs and moving directly from one into another is acceptable. Not working for a period of time (more than 90 days) “in between” jobs is not considered to be continuous employment unless there are specific and compelling reasons that can be confirmed by the homebuyer’s employer.
9. Applicants for this loan program are ineligible for other Housing Trust programs.
10. Applicants must participate in an ESCO First Time Homebuyer Certification Program with a Housing Trust staff member or agent to verify that they understand the ESCO product and implications upon sale or refinancing of their Property.
11. Applicants must complete a Homebuyer Education Course. For a list of providers offering Homebuyer Education Courses, please see **Appendix H**.

ADDITIONAL FINANCING

Any first mortgage obtained by the homebuyer must be a fixed rate, 30-year, fully amortizing loan only. Any second mortgage obtained by the homebuyer must have at least a 15-year term and be amortizing on a maximum 30-year basis. First or second mortgages used in conjunction with the **ESCO Program**:

1. Cannot be interest only;
2. Cannot have an adjustable rate feature;
3. Cannot negatively amortize;
4. Cannot have a term of more than thirty years (second mortgage term must be a minimum of 15 years in length);
5. Cannot have a “balloon” feature (except second mortgages which can have a minimum term of 15 years based on a maximum amortization period of 30 years);
6. Cannot have a combined loan-to-value ratio (CLTV) above 90% or below 75%;
7. Cannot have embedded resale restrictions on the Property; and
8. Cannot utilize any other equity share or other down payment assistance program unless specifically authorized by the Housing Trust

APPRAISAL AT PURCHASE

The Housing Trust will require an appraisal at the time the Property is purchased but will accept an appraisal obtained by the first mortgage lender. In the case that an

appraisal was not obtained, the Housing Trust retains the right to obtain an appraisal prior to closing at the homebuyer's expense.

ESCO ORIGATION FEES

A loan origination fee equal to two percent (2%) of the ESCO Principal Amount is collected at the close of escrow.

FUNDS NEEDED AT THE CLOSE OF ESCROW (CUSTOMARY CLOSING COSTS WITH OR WITHOUT ESCO)

In addition to the loan origination fees on the ESCO Principal Amount and on the first and/or second mortgages, homebuyers should expect to pay additional costs at or before the close of escrow. There will be fees for loan processing, the credit report, appraisal, title insurance, prepaid hazard insurance, and some portion of the escrow fees. The title company will provide the total amount of these costs and when they are due. Some of these fees will have already been charged in conjunction with taking out a first mortgage, in which case they will not be charged again to homebuyers, provided the Housing Trust accepts the service and/or report involved.

ESCO LOAN IS SECURED BY THE PROPERTY

The ESCO Principal Amount **plus** the ESCO Equity Share are secured by a Deed of Trust. A Deed of Trust is the document that records a lien against the Property for the amount of the ESCO loan. A lien is the way lenders secure the repayment of the loan, including principal and interest, by having rights to ownership of the Property if the loan is not repaid in full.

ESCO TERM

The ESCO Principal Amount and the ESCO Equity Share are due and payable on the earliest of the following (the "Due Date):

1. Fifteen (15) years after the Property is purchased;
2. When the Property is sold or transferred (except for certain allowable transfers as described in the Promissory Note);
3. When the ESCO loan is prepaid in full (see section below on Prepayment);
4. When the first and/or second mortgages on the Property (any loans senior to the ESCO loan) are refinanced;
5. When the Property ceases to be the principal residence of the original homebuyer; or
6. Upon occurrence of any other circumstances as set forth in the Promissory Note.

HOMEBUYER RESPONSIBILITIES

1. The homebuyer makes 100% of the mortgage payments and also receives 100% of the mortgage interest deduction (subject to all Federal and State restrictions). Prospective homebuyers looking to utilize the **ESCO Program** should consult their tax advisor.
2. The homebuyer pays all property taxes and receives 100% of the tax deductions associated with those payments (subject to all Federal and State restrictions). Prospective homebuyers looking to utilize the **ESCO Program** should consult their tax advisor.
3. The homebuyer must pay for all maintenance and repairs of the Property, to keep it in as good or better condition as when the Property was purchased. Please see **Appendix C** for detailed information on the homebuyer's maintenance and repair responsibilities.
4. The homebuyer must maintain and pay for all property insurance throughout the term of the ESCO loan.

PROPERTY IMPROVEMENTS

The ESCO Equity Share may be affected by certain home improvements (“Eligible Home Improvements”), resulting in an adjustment to the ESCO Equity Share payable at the Due Date. Please see Appendix C for a description of Eligible Home Improvements and how the ESCO Equity Share is adjusted to take such improvements into account.

HOME EQUITY LINES OF CREDIT (OR OTHER ADDITIONAL HOME LOANS)

The homebuyer must fully repay the ESCO Principal Amount and the ESCO Equity Share to the Housing Trust prior to taking out any new loans on the Property, whether through a Home Equity Line of Credit (HELOC) or any other kind of loan. The homebuyer pledges not to place any other indebtedness or obligation on the Property without the prior written consent of the Housing Trust.

ESCO REPAYMENT

The original ESCO Principal Amount, plus the ESCO Equity Share is due and payable to the Housing Trust on the Due Date. The amount due and payable to the Housing Trust is contingent upon the sale price or fair market value of the Property, as determined by an appraisal paid for by the homebuyer, as described below.

Property Sale or Refinance

When the Property is sold or refinanced, the homebuyer will repay the Housing Trust the original ESCO Principal Amount and the ESCO Equity Share from the proceeds of the sale or refinancing. The sale proceeds will be distributed as follows:

1. Sale transaction costs will be paid. This includes any bona fide real estate broker’s commission actually paid at the time of sale (but in no event greater than 6% of the sale price at payoff).
2. The remaining principal balance and interest due on any outstanding senior mortgages will be retired, which means any first and second mortgages which come ahead of the ESCO loan in priority.
3. The homebuyer will repay the Housing Trust the Outstanding ESCO Principal Amount.
4. The homebuyer will receive his/her original equity contribution back (the Homebuyer’s Down Payment).
5. The homebuyer will receive his/her mortgage principal payments back (all principal paid against the first and second mortgages which come ahead of the ESCO loan in priority).
6. The remaining equity (the “Appreciation”), if any, will be shared between the Housing Trust and the homebuyer. Shown below are the formulas for calculating the Housing Trust’s share of appreciation (the “ESCO Equity Share”) and the homebuyer’s share of appreciation (the “Homebuyer Equity Share”):

The **ESCO Equity Share** is the share of Appreciation obtained by multiplying total Appreciation by a fraction, the numerator of which is the Outstanding ESCO Principal Amount, and the denominator of which is the sum of:

- the Outstanding ESCO Principal Amount, plus
- the Homebuyer Down Payment, plus
- Credit for Eligible Home Improvements, if any

$$\begin{array}{c}
 \boxed{\text{ESCO Equity Share}} \\
 = \\
 \frac{\boxed{\text{Outstanding ESCO Principal Amount}}}{\boxed{\text{Outstanding ESCO Principal Amount}} + \boxed{\text{Homebuyer Down Payment}} + \boxed{\text{Credit for Eligible Home Improvements}}} \times \boxed{\text{Appreciation}}
 \end{array}$$

However, in no event will the ESCO Equity Share exceed a sum equal to 9.5% simple interest on the ESCO Principal Amount, on a deferred basis and payable upon maturity.

This is the ESCO Equity Share Cap. Any Appreciation to be shared in excess of the ESCO Equity Share Cap is added to the Homebuyer Equity Share.

The **Homebuyer Equity Share** is the Appreciation minus the ESCO Equity Share:

$$\boxed{\begin{array}{c} \text{Homebuyer} \\ \text{Equity} \\ \text{Share} \end{array}} = \boxed{\text{Appreciation}} - \boxed{\begin{array}{c} \text{ESCO} \\ \text{Equity} \\ \text{Share} \end{array}}$$

Please see **Appendix D** for an example sale transaction. **Appendix E** shows the transaction including Eligible Home Improvements.

Prepayment

The homebuyer may prepay the ESCO Loan in whole or in part at any time after the first anniversary of the closing date of the loan. Each partial prepayment must be in an increment of 25% of the original ESCO Principal Amount (25%, 50%, or 75%) or \$10,000, whichever is greater. Prepayment amounts will be applied to both the original ESCO Principal Amount and to the ESCO Equity Share in a proportion based on the amount of appreciation accrued as of the prepayment date. The amount of appreciation accrued will be calculated based on the fair market value of the Property at the time of prepayment as determined by an appraisal done by an appraiser approved by the Housing Trust, paid for by the homebuyer.

Shown below are the formulas for calculating the portion of the prepayment that is applied towards (1) the ESCO Principal Amount (the “ESCO Principal Prepayment”) and (2) the ESCO Equity Share (the “ESCO Equity Share Prepayment”):

The **ESCO Principal Prepayment** is determined by multiplying the Net Prepayment by a fraction, the numerator of which is the Outstanding ESCO Principal Amount, and the denominator of which is the sum of:

- the Outstanding ESCO Principal Amount, plus
- the ESCO Equity Share

$$\boxed{\begin{array}{c} \text{ESCO} \\ \text{Principal} \\ \text{Prepayment} \end{array}} = \boxed{\text{Net} \\ \text{Prepayment}} \times \frac{\boxed{\begin{array}{c} \text{Outstanding} \\ \text{ESCO Principal} \\ \text{Amount} \end{array}}}{\boxed{\begin{array}{c} \text{Outstanding} \\ \text{ESCO Principal} \\ \text{Amount} \end{array}} + \boxed{\begin{array}{c} \text{ESCO} \\ \text{Equity} \\ \text{Share} \end{array}}}$$

The **ESCO Equity Share Prepayment** is the difference between the Net Prepayment and the ESCO Principal Prepayment:

$$\boxed{\begin{array}{c} \text{ESCO} \\ \text{Equity Share} \\ \text{Prepayment} \end{array}} = \boxed{\begin{array}{c} \text{Net} \\ \text{Prepayment} \end{array}} - \boxed{\begin{array}{c} \text{ESCO} \\ \text{Principal} \\ \text{Prepayment} \end{array}}$$

Please see **Appendix F** for an example prepayment transaction.

TAX ASPECTS

For further understanding of the Federal and State income tax implications of the ESCO loan, please consult your tax advisor.

FAQ

A frequently asked questions (FAQs) document is attached to **ESCO Program Guide** as **Appendix G**.

PROGRAM CHANGES

The Housing Trust reserves the right to make changes to the **ESCO Program** or any of its terms and conditions at any time. Such changes will be published periodically in **ESCO Program Guide** updates but will not necessarily all be reflected in the most current version of the **ESCO Program Guide**. Please refer to Housing Trust staff with any specific questions:

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**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program
Appendix A
Income Limits**

Income Limits

- For purposes of the ESCO Program, the combined income of all household members 18 years old or older who will be living in the Property must be included in the determination of total income (“Total Household Annual Gross Income”).
- A homebuyer’s Total Household Annual Gross Income cannot be more than **140%** of the Area Median Income (AMI) for the Santa Clara County, based on household size, as established by the California Department of Housing and Community Development (HCD), adjusted annually.
- As of April 2009, annual income limits for Santa Clara County are based on an area median income of **\$105,500** for a family of four.
- Based on the number of people in the household, total income must be less than the figures below:

Household Size	Maximum Annual Income*
1	\$103,390
2	\$118,160
3	\$132,930
4	\$147,700
5	\$159,530
6	\$171,360
7	\$183,120
8	\$194,950

**Note: Income limits are subject to change annually*

Eligible Household Member

To be considered a member of the household, a person must either be:

- On the title and loan of the Property, or
- Claimed as a dependent on the tax returns of the household member who will appear on the title and ESCO loan (a spouse is not a dependent; he/she must be on the title and loan of the Property), or
- Any other household member 18 years of age or older earning an income.

Income Verification

- To verify income, a homebuyer will need to provide the Housing Trust with Federal Income Tax Returns with W2s from the last three years as well as the two most recent paystubs for all eligible household members earning an income.
- The homebuyer will need to provide the Housing Trust with a Verification of Employment for all household members earning an income. The Housing Trust will provide a Verification of Employment form to all applicants.
- A homebuyer who is self-employed will need to provide the Housing Trust with the last three years' income tax returns, both State and Federal, plus a profit and loss statement from an accountant for the last 6 months.
- A homebuyer who both has a job and is self-employed must provide documentation for both.
- Documentation is required for all income earning household members 18 years old or older who will be living in the Property.

**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program
Appendix B
Occupancy Guidelines**

- 1) The homebuyer must occupy the purchased property as his/her primary residence within 60 days after close of escrow.
- 2) Properties that have received ESCO funding must remain owner-occupied throughout the term of the ESCO loan and never be used as an investment or rental property.
- 3) The Housing Trust will perform compliance monitoring and require documented proof of occupancy at intervals determined by the Housing Trust.
- 4) If the Property is not continuously occupied by the owner, repayment of the ESCO Principal Amount along with the ESCO Equity Share will be required immediately.

**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program
Appendix C
Home Improvement Guide**

- 1) **Maintenance and Repairs.** Maintenance and repair of the Property are the responsibility of the Homebuyer. The Homebuyer agrees to individually manage, maintain, and repair the Property, in as good or better condition, as when the Property was purchased. All costs of ordinary maintenance and repairs shall be borne solely by the Homebuyer.

- 2) **Eligible Home Improvements.** An Eligible Home Improvement is an improvement made to the Property during the life of the loan that (1) adds value to the Property, (2) prolongs the Property’s useful life, or (3) adapts the Property to new uses. Adding a family room or bathroom, installing a new fence, upgrading your plumbing or wiring, putting on a new roof, or paving your unpaved driveway are all considered Eligible Home Improvements. The following chart from the Department of the Treasury, Internal Revenue Service Publication 523 lists examples of improvements.

<p>Additions Bedroom, Bathroom, Deck, Garage, Porch, Patio</p> <p>Lawn and Grounds Landscaping, Driveway, Walkway, Fence, Retaining wall, Sprinkler system, Swimming pool</p> <p>Miscellaneous Storm windows and doors, New roof, Central vacuum, Wiring upgrades, Satellite dish, Security</p>	<p>Heating & Air Conditioning Heating system, Central air conditioning, Furnace, Duct work, Central humidifier, Filtration System</p> <p>Plumbing Septic system, Water heater, Soft water system, Filtration system</p> <p>Interior Improvements Built-in appliances, Kitchen modernization, Flooring, Wall-to-wall carpeting</p> <p>Insulation Attic, Walls, Floors, Pipes and duct work</p>
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Eligible Home Improvements must meet all of the following criteria:

- (a) As defined by IRS regulations, the improvement constitutes a capital improvement, the cost of which is properly added to a homebuyer's adjusted basis in the Property for capital gains tax purposes;
 - (b) It is not in violation of any applicable zoning and building codes;
 - (c) All required building permits have been obtained;
 - (d) All other Housing Trust policies have been complied with;
 - (e) It has a useful life of more than one year;
 - (f) It is completed prior to determining the fair market value on the Due Date; and
 - (g) It remains, as determined in the sole discretion of the Housing Trust, a part of the Property on the Due Date.
- 3) **Non-Eligible Improvements.** The following kinds of home improvements are not considered Eligible Home Improvements:
- (a) Improvements that are no longer a part of the Property are not considered Eligible Home Improvements. For example, if you put wall-to-wall carpeting in your Property several years ago and later replaced the carpet, you will not be credited for the cost of the old carpeting. In addition, no adjustment of actual cost will be made to account for inflation or for labor performed by the Homebuyer.
 - (b) Improvements that are constructed with insurance proceeds (or the cost of which is reimbursed through insurance proceeds) are not considered Eligible Home Improvements.
 - (c) Ordinary maintenance and repairs are not considered Eligible Home Improvements.
- 4) **Cost Documentation.** The homebuyer is advised to document the cost of all Eligible Home Improvements made to the Property. Documentation is required for the Homebuyer to get credit for Eligible Home Improvements.
- 5) **Appraisal.** The homebuyer is advised to obtain an appraisal (at the homebuyer's expense) of the value of any Eligible Home Improvement immediately after it is completed, using an appraiser certified by the Housing Trust. An appraisal is required for the Homebuyer to get credit for the improvement.

- 6) **Credit for Eligible Home Improvements.** The Housing Trust will give credit for the lesser of (i) the documented cost of the Eligible Home Improvement or (ii) the appraised value of the Eligible Home Improvements. Credit will be given as follows:
- (a) Credited value of Eligible Home Improvements will be added to the Homebuyer's Down Payment to increase the amount of total equity invested by the Homebuyer to change split of Equity Share between the Housing Trust and the Homebuyer. (See the "ESCO Equity Share" and "Homebuyer Equity Share" formulas in section "ESCO Repayment" above), .
 - (b) *provided, however,* that in the event the ESCO Equity Share is affected by Eligible Home Improvements, the resulting amount due to the Homebuyer cannot exceed the amount that would be due to the Homebuyer in the absence of such improvements by more than the total of such Eligible Home Improvements.
 - (c) Under certain circumstances, if there is not sufficient Appreciation to cover all of the value of the Eligible Home Improvements at the time of maturity or prepayment according to the new equity share percentage split, then the Homebuyer will receive less than the full value of those Eligible Home Improvements.
 - (d) The three examples below illustrate how the credit for Eligible Home Improvements works:
 - (i) For example, the Homebuyer makes a down payment of \$25,000 and the Housing Trust provides an ESCO Loan equal to \$25,000 on a Property which is purchased for \$250,000. After ten years, the Property is sold for \$310,000, and after sale transaction costs (6%) there is net Appreciation of \$41,400. The Housing Trust receives its ESCO Principal (\$25,000) back plus 1/2 of the Appreciation (\$20,700) and the Homebuyer receives the down payment (\$25,000) back plus 1/2 of the Appreciation (\$20,700). Each party has put in exactly 1/2 of the total equity invested in Property and therefore each party receives exactly 1/2 of the Appreciation.
 - (ii) Take the same example as (i) above, but now the Homebuyer makes a \$25,000 Eligible Home Improvement to the Property. If after ten years, the Property is sold for \$335,000, and after sale transaction costs (6%) there is net Appreciation of \$64,900. The Housing Trust receives its ESCO Principal (\$25,000) back plus 1/3 of the Appreciation (\$21,633) and the Homebuyer receives the down payment (\$25,000) back plus 2/3 of the Appreciation (\$43,267). In this case, the Housing Trust receives a smaller percentage share of the Appreciation than in (i) above, while the Homebuyer receives a larger percentage share of the Appreciation. This is because the Housing Trust has invested 1/3 of the total amounts both

it and the Homebuyer put up (\$25,000) while the Homebuyer has invested 2/3 of the total amounts (\$25,000 + \$25,000).

(iii) Take the same example as (ii) above, but now after ten years the Property sells for \$500,000, and after sale transaction costs (6%), the net Appreciation is \$220,000. Using the formula for calculating the equity split, the Homebuyer would receive 2/3 of the net Appreciation (\$146,667). The Housing Trust would receive 1/3 of the net Appreciation (\$73,333); however, since the Housing Trust's share is capped at 9.5% simple interest based on the ESCO Principal Amount, it is entitled to only \$23,750 (which is \$25,000 x 9.5% x 10 years), and the remainder of its share (\$49,583) is also returned to the Homebuyer. In this case, the Homebuyer receives a total of \$206,250, or 89% of the net appreciation.

(e) If the Homebuyer desires to know whether the credit will be allowed prior to the costs of the improvement being incurred, he/she may obtain a good faith estimate from an Appraiser based on the plans; however, only the final appraisal will be accepted by the Housing Trust (using the lower of appraisal or cost formula).

(f) If the total value of all contemplated improvements equals 100% or more of the Outstanding ESCO Principal Amount, then the Homebuyer must prepay all Outstanding ESCO Principal plus ESCO Equity Share before receiving any credit for Eligible Home Improvements.

7) **Requesting Credit for Eligible Home Improvements.** At the time of loan repayment, the Homebuyer may request that certain Eligible Home Improvements be included in the calculation of the ESCO Equity Share and Homebuyer Equity Share. To qualify for the credit, the Homebuyer must submit the cost documentation and the appraisal for each Eligible Home Improvement. In addition, the Homebuyer must obtain from an independent Certified Public Accountant (CPA), acceptable to the Housing Trust, the following:

(a) a statement, in the form of the attached certification, on the CPA's letterhead, including his/her name, address, and telephone number, and includes:

i) the name of the Homebuyer,

ii) the address of the Property where the Eligible Home Improvement(s) were completed,

iii) a list of the Eligible Home Improvement(s) which includes the date, the description, the cost and the appraisals for the Eligible Home Improvement(s); and

(b) It is the Homebuyer's responsibility to provide to the Housing Trust the CPA's statement prior to a full or partial loan repayment. The Homebuyer should carefully review the CPA's statement and address any questions or concerns regarding the documents before submission to the Housing Trust. The CPA statement is subject to review and acceptance by the Housing Trust. The Housing Trust reserves the right to obtain the opinion of a CPA if it reasonably believes the opinion of Homebuyer's CPA is in error. A re-calculation of ESCO Equity Share will not be made after the loan payment is received.

Certification

I am a Certified Public Accountant licensed to practice in the State of California. The attached list of improvements, which includes the date, description, cost, and appraisals, represents a list of capital improvements made to the residence of:

Owner(s): _____

Property
Address: _____

In providing this list, I certify the following:

1. I am familiar with the Department of Treasury, Internal Revenue Service publication 523 and the supporting regulations.
2. I have reviewed the documents necessary to satisfy the standard applied by Internal Revenue Circular 230 in general and regulation §10.22 in particular for practicing before the Internal Revenue Service.
3. I have read and understand the relevant terms of the Equity Share Co-Investment (ESCO) loan to which the Eligible Home Improvements apply. Based on the foregoing, I certify that the improvements listed on the attached statement comply with applicable Federal income tax laws and regulations to be included in the adjusted basis of the Property. I understand that the Housing Trust of Santa Clara County (the "Housing Trust") may contact me for further information about the capital improvements listed above and I agree to cooperate with the Housing Trust in connection with such requests. I further understand that whether or not any or all of the above improvements are taken into consideration for determining ESCO payoff amount remains in the sole discretion of the Housing Trust.

Signature of the CPA

Date _____

CPA License Number _____

**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program
Appendix D - Example Sale Transaction - Sale in Year 10**

In the below example, a homebuyer purchased a home for **\$500,000** with a 30-year, fixed-rate, fully amortizing first mortgage of **\$425,000** at 5.6%, an ESCO loan of **\$37,500**, and a down payment of **\$37,500**. The homebuyer sells the Property in year 10 for **\$671,958**. The net appreciation of **\$131,641** is split between the Housing Trust and the Homebuyer. The share of appreciation due to the Housing Trust (the “ESCO Equity Share”) based on matching the homebuyer’s down payment would be the lesser of 50% of net appreciation or 9.5% simple interest cap, which is **\$35,625** (27% of net appreciation), and the share due to the Homebuyer (the “Homebuyer Equity Share”) is **\$96,016** (73% of net appreciation). Thus, the total amount due upon sale to the Housing Trust is the amount of the original ESCO loan (**\$37,500**) plus the ESCO Equity Share (**\$35,625**) for a total of **\$73,125**. The total amount due to the Homebuyer is the original down payment (**\$37,500**) plus the Homebuyer Mortgage Principal Payments (**\$72,746**) plus the Homebuyer Equity Share (**\$96,016**) for a total of **\$206,262**.

Value	Formula	\$
Home Purchase Price		\$500,000
Mortgage (5.6% APR, 30-year fixed amortizing)		\$425,000
ESCO Principal Amount		\$37,500
Homebuyer Down Payment		\$37,500
Eligible Home Improvements		\$0
Appreciation	Year 10 property sale price (assuming 3% annual appreciation) - Transaction cost (6% real estate broker’s commission) - Property Purchase Price = Appreciation	\$671,958 - \$40,317 <u>- \$500,000</u> \$131,641
ESCO Equity Share	Outstanding ESCO Principal Amount ÷ Outstanding ESCO Principal Amount + Homebuyer Down Payment + Credit for Eligible Home Improvements* x Appreciation ESCO Equity Share = lesser of ESCO Equity Share before Cap or 9.5% Simple Interest Cap	\$37,500 ÷ \$37,500 + \$37,500 + 0 x <u>\$131,641</u> \$65,820 \$35,625
Homebuyer Equity Share	Appreciation - ESCO Equity Share = Homebuyer Equity Share	\$131,641 <u>- \$35,625</u> \$96,016
Total Amount Due to Housing Trust	Outstanding ESCO Principal Amount + ESCO Equity Share (Capped) = Total Amount Due to Housing Trust	\$37,500 <u>+ \$35,625</u> \$73,125
Total Amount Due to Homebuyer	Homebuyer Down Payment + Homebuyer Mortgage Principal Payments + Homebuyer Equity Share = Total Amount Due to Homebuyer	\$37,500 + \$72,746 <u>+ \$96,016</u> \$206,262

* Credit for Eligible Home Improvements capped under the terms of Appendix C, section 6

**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program**

Appendix E - Example Sale Transaction with \$25K Eligible Home Improvements

In the below example, a homebuyer purchased a home for **\$500,000** with a 30-year, fixed-rate, fully amortizing first mortgage of **\$425,000** at 5.6%, an ESCO loan of **\$37,500**, and a down payment of **\$37,500**. The homebuyer makes eligible home improvements of **\$25,000** and sells the Property in year 10 for **\$696,958**. The net appreciation of **\$155,140** is split between the Housing Trust and the Homebuyer. The share of appreciation due to the Housing Trust (the “ESCO Equity Share”) based on matching the homebuyer’s down payment would be the lesser of 50% of net appreciation or 9.5% simple interest cap, which is **\$35,625** (23% of net appreciation), and the share due to the Homebuyer (the “Homebuyer Equity Share”) is **\$119,515** (77% of net appreciation). Thus, the total amount due upon sale to the Housing Trust is the amount of the original ESCO loan (**\$37,500**) plus the ESCO Equity Share (**\$35,625**) for a total of **\$73,125**. The total amount due to the Homebuyer is the original down payment (**\$37,500**) plus the Homebuyer Mortgage Principal Payments (**\$72,746**) plus the Homebuyer Equity Share (**\$119,515**) for a total of **\$229,761**.

Value	Formula	\$
Home Purchase Price		\$500,000
Mortgage (5.6% APR, 30-year fixed amortizing)		\$425,000
ESCO Principal Amount		\$37,500
Homebuyer Down Payment		\$37,500
Eligible Home Improvements		\$25,000
Appreciation	Year 10 property sale price (assuming 3% annual appreciation) - Transaction cost (6% real estate broker’s commission) - Property Purchase Price = Appreciation	\$696,958 - \$41,818 <u>- \$500,000</u> \$155,140
ESCO Equity Share	Outstanding ESCO Principal Amount ÷ Outstanding ESCO Principal Amount + Homebuyer Down Payment + Credit for Eligible Home Improvements* x Appreciation ESCO Equity Share = lesser of ESCO Equity Share before Cap or 9.5% Simple Interest Cap	\$37,500 ÷ \$37,500 + \$37,500 + \$25,000 x <u>\$155,140</u> \$58,177 \$35,625
Homebuyer Equity Share	Appreciation - ESCO Equity Share = Homebuyer Equity Share	\$155,140 <u>- \$35,625</u> \$119,515
Total Amount Due to Housing Trust	Outstanding ESCO Principal Amount + ESCO Equity Share = Total Amount Due to Housing Trust	\$37,500 <u>+ \$35,625</u> \$73,125
Total Amount Due to Homebuyer	Homebuyer Down Payment + Homebuyer Mortgage Principal Payments + Homebuyer Equity Share = Total Amount Due to Homebuyer	\$37,500 + \$72,746 <u>+ \$119,515</u> \$229,761

* Credit for Eligible Home Improvements capped under the terms of Appendix C, section 6

**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program
Appendix F - Example Sale Transaction with \$20K Prepayment in Year 5**

In the below example, a homebuyer purchased a Property for **\$500,000** with a 30-year, fixed-rate, fully amortizing first mortgage of **\$425,000** at 5.6%, an ESCO loan of **\$37,500**, and a down payment of **\$37,500**. The homebuyer makes a **\$20,000** prepayment of the ESCO loan in year 5, when the fair market value of the Property is appraised at **\$579,637**. Based on the appreciation of the Property, a portion of the prepayment is applied to pay down the Outstanding ESCO Principal Amount (the “ESCO Principal Prepayment”), and the remainder is applied to pay down the ESCO Equity Share (the “ESCO Equity Share Prepayment”). In this case, the ESCO Principal Prepayment is **\$9,700** and the ESCO Equity Share Prepayment is **\$10,300**, for a total of **\$20,000**.

Value	Formula	\$
Property Purchase Price		\$500,000
Mortgage (5.6% APR, 30-year fixed amortizing)		\$425,000
ESCO Principal Amount		\$37,500
Homebuyer Down Payment		\$37,500
Eligible Home Improvements		\$0
Net Prepayment	Prepayment - Delinquent Taxes and Insurance = Net Prepayment	\$20,000 <u>- \$0</u> \$20,000
Appreciation	Fair Market Value in year 5 (assuming 3% annual appreciation) - Property Purchase Price = Appreciation	\$579,637 <u>- \$500,000</u> \$79,637
ESCO Equity Share	Outstanding ESCO Principal Amount ÷ Outstanding ESCO Principal Amount + Homebuyer Down Payment + Credit for Eligible Home Improvements x Appreciation = ESCO Equity Share	\$37,500 ÷ \$37,500 + \$37,500 + 0 x <u>\$79,637</u> \$39,819
ESCO Principal Prepayment	Net Prepayment ÷ Outstanding ESCO Principal Amount + ESCO Equity Share x Outstanding ESCO Principal Amount = ESCO Principal Prepayment	\$20,000 ÷ \$37,500 + \$39,819 x <u>\$37,500</u> \$9,700
ESCO Equity Share Prepayment	Net Prepayment - ESCO Principal Prepayment = lesser of ESCO Equity Share Prepayment or 9.5% Simple Interest Cap	\$20,000 <u>- \$9,700</u> \$10,300 \$17,812

* Credit for Eligible Home Improvements capped under the terms of Appendix C, section 6

**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program
Appendix G
Frequently Asked Questions**

Those who may be learning about the **Housing Trust’s ESCO Program** may have a few questions about how an ESCO works.

When does the homebuyer have to repay the ESCO Principal Amount and ESCO Equity Share?

- Upon sale or refinancing of the property, the ESCO Principal Amount and ESCO Equity Share will be paid out according to the fair market value of the Property at that time.
- Alternatively, the homebuyer can prepay all or part of the ESCO loan.

How long does the loan last?

- The ESCO loan is a “balloon” payment where all principal and interest is due at the latest fifteen (15) years from the closing date. It is designed to help people buy their first home but not designed as a long-term (i.e., 30-year) loan.

What security does the Housing Trust have for its ESCO loan?

- The ESCO Principal Amount and ESCO Equity Share are recorded by a lien on the Property.

What happens if the homebuyer wants to remodel or improve the property?

- Homebuyers will receive credit for eligible home improvements up to the lesser of cost or the appraised value of those improvements at the time the improvements are made.
- Over-improvements will not generally generate additional equity credit for the homebuyer.

What happens if the homebuyer wants to get a home equity line of credit on top of a first mortgage?

- The Housing Trust requires that homebuyers prepay the ESCO loan in full before taking out any additional loans on the property.

What if the Property value never rises above the original purchase price or even declines?

- The Housing Trust receives the ESCO Principal Amount before the homebuyer receives any equity from the sale.
- The Housing Trust receives its interest in the form of shared appreciation on the property: if the Property does not appreciate, the Housing Trust is not due any interest.

Who pays for the mortgage, property taxes, maintenance and insurance?

- The homebuyer makes 100% of the mortgage payments and also receives 100% of the mortgage interest deduction.

- The homebuyer pays all property taxes and receives 100% of the tax deductions associated with those payments.
- The homebuyer pays for and must maintain the property in as good or better condition as when the Property was purchased.
- The homebuyer must maintain and pay for all property insurance.

What if the homebuyer “forgets” about his “silent” ESCO equity partner and then is upset about the making a big payment to the Housing Trust for its share of the Property appreciation after 15 years or when the property is sold?

- Homebuyer education and screening will be a key part of the ESCO application process.
- Homebuyers need to understand that while the ESCO investment bears no interest, like a conventional mortgage, the homebuyer will share any appreciation on the Property with the Housing Trust, which will reduce the full equity upside to the homebuyer.
- This is the trade-off a homebuyer will make today for buying a new Property that he/she otherwise might not be able to get a mortgage for now--thus allowing him/her to begin participating in the upside of homeownership rather than continuing to rent or waiting to move or relocate.
- Regular statements will be provided to homebuyers reflecting the value of their equity and the ESCO investor’s equity stake based on regional home sale price averages.
- Consistent and clear communications will be made all throughout the process so as to minimize misunderstandings about how an ESCO loan works.
- After screening and education, prospective applicants will have a chance to decide whether this product will be suitable for them vs. all their other home finance options.

**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program
Appendix H
Homebuyer Education Course Providers**

Please contact the Housing Trust of Santa Clara County for a list of approved Homebuyer Education Course Providers. In general, HUD-approved courses will be approved by the Housing Trust:

The Housing Trust of Santa Clara County
95 South Market Street, Suite 550
San Jose, CA 95113
(408) 436-3450 main tel
(408) 436-3454 fax
www.housingtrustscc.org

**Housing Trust of Santa Clara County (the “Housing Trust”)
Equity Share Co-Investment (ESCO) Program
Appendix I
ESCO Application Process**

Pre-Approval Process

1. **Lender Pre-Approval.** Homebuyer applies for a first mortgage from a lender and receives a lender pre-approval letter. The Housing Trust of Santa Clara County (the Housing Trust) publishes a list of lenders who have approved the ESCO Program in conjunction with their mortgages on its website.
2. **ESCO Application.** Homebuyer submits an ESCO Program Application to the Housing Trust with back-up documentation and a copy of the lender’s pre-approval letter. Information marked “*required for closing only” can be left blank at this stage.
3. **ESCO Pre-Approval.** The Housing Trust reviews the application and, if the applicant qualifies, issues an ESCO Pre-Approval Letter.

Final Approval Process

4. **Homebuyer Workshop.** Homebuyer attends a First-Time Homebuyer Workshop approved by the Housing Trust. The Housing Trust provides a list of approved workshops.
5. **ESCO Program Seminar.** In addition, homebuyer participates in an ESCO Program Seminar to ensure he or she understands the ESCO Program thoroughly.
6. **Find a Home.** Homebuyer works with a real estate agent to find a home within Santa Clara County. This can happen in parallel with Steps 1 thru 5 above.
7. **Make an Offer.** Homebuyer makes an offer and goes into contract to purchase a home.
8. **Updated Application.** The homebuyer updates the ESCO Application with home purchase details and any change to financial status.
9. **Final Review.** The Housing Trust will review the updated ESCO Application for final underwriting to confirm that (a) no material change has occurred in the homebuyer’s financial or employment status since the original application was submitted; and (b) home purchase conforms to the ESCO Program guidelines.
10. **Commitments.** Homebuyer receives final commitment from the first mortgage lender and subsequently from the Housing Trust for the ESCO loan.
11. **Closing.** Homebuyer signs loan documents and closes escrow.