



Good Neighbors

San Diego Housing Commission

REPORT

DATE ISSUED: March 3, 2006 REPORT NO: HCR06-21
ATTENTION: Members of the Housing Commission ITEM: 104
SUBJECT: Proposed Revisions to the First Time Homebuyer Programs

REQUESTED ACTION:

Housing Authority approval to create a new First Time Homebuyer (FTHB) Program to be used in affordability restricted units and modify the existing Deferred Second Trust Deed Loan Program to make it more useable.

STAFF RECOMMENDATIONS:

1. Create a two-tiered, three percent (3%) interest deferred second loan program to assist buyers purchasing affordability restricted units (e.g., inclusionary or density bonus). First tier for households at 80 percent or below Area Median Income (AMI): maximum loan amount 25 percent of the affordable purchase price. Second tier for households earning 81-100 percent AMI: maximum loan amount 15 percent of the affordable purchase price;
2. Increase amount of deferred second loans for Condominium Conversion 100 percent AMI Program from \$15,000 to 15 percent of the purchase price and extend the shared appreciation provision from 15 to 30 years; and
3. Delegate authority to Housing Commission Board to make future revisions to the FTHB Programs.

BACKGROUND:

The San Diego Housing Commission has operated a successful FTHB Program since 1992. The FTHB Program is made up of three different components: 1) Deferred Second Trust Deed Loans; 2) Down Payment/Closing Cost Assistance Grants; and 3) Mortgage Credit Certificates. Through these programs, the Housing Commission offers financial assistance to help eligible low to moderate income buyers purchase their first home.

New Deferred Interest Second Loans

The Housing Commission administers several land use-based affordable for-sale housing programs. The programs are regulated by state, federal or local ordinances. The existing affordable for-sale housing programs include:

- North City Future Urbanizing Area – Development in this area requires that 20 percent of all new housing be affordable at below market prices. Where the affordable housing is offered for sale, for a period of 55 years the homes may only be transferred or sold at a price that is affordable to buyers who meet the eligibility criteria; such as income (limits range from 60 percent area median income (AMI) / \$41,400 for a family of four to 80 percent AMI / \$55,200 for a family of four) and asset limitations. To make certain the property continues to be



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affordable for 55 years, the buyer signs a Promissory Note for an amount equal to the difference between (i) the fair market value of the property at the time it is purchased, and (ii) the actual affordable price paid to purchase the property.

- Inclusionary Housing Ordinance – Elsewhere in San Diego, ten percent of new housing is to be affordable. When offered for sale, the sales prices are set at a price that is affordable to households earning 100 percent or less of AMI. The buyers must meet eligibility requirements which include income at or below 100 percent AMI (\$63,400 for a family of four) and asset limitations. The buyer signs a Promissory Note for an amount equal to the difference between (i) the fair market value of the property at the time it is purchased, and (ii) the actual affordable price paid to purchase the property. The Note contains an equity sharing provision for a period of 15 years. The buyers can resell the unit at market value and the affordability restrictions are reconveyed.
- Density Bonus Program – An increase in density is available to developers who commit some units at below market prices. When units are offered for sale, the sales prices are set at a price that is affordable to households earning 110 percent or less of AMI. The buyers must meet eligibility requirements which include income at or below 120 percent AMI (\$76,100 for a family of four) and asset limitations. The buyer signs a Promissory Note for an amount equal to the difference between (i) the fair market value of the property at the time it is purchased, and (ii) the actual affordable price paid to purchase the property. The Note contains a share appreciation provision for a period of 30 years. The buyers can resell the unit at market value and the affordability restrictions are reconveyed.

The Housing Commission allows eligible buyers of the affordable units to utilize the existing down payment/closing cost assistance grant and mortgage credit certificate programs. Even with the assistance of these programs, it is difficult for developers to find qualified buyers. There is a small window of eligible buyers who earn enough to qualify for a loan but are not over-income. As an example, Legacy Walk is the first development under the Inclusionary Housing Ordinance to offer affordable for-sale housing. The developer had 1,500 potential buyers on their interest list with approximately 140 people completing the pre-application forms. From the 140 applications the lender was only able to qualify three buyers (four additional buyers have since been qualified). Housing Commission staff met with the developer and lender to determine the reason so few were able to qualify for the conventional first trust deed loan. The main obstacles were poor credit and high debt ratios. Most buyers have a car payment and a couple of credit cards with existing debts averaging \$450 a month. Combining the existing monthly debt with the housing expenses resulted in very high debt to income ratio that was not an acceptable risk to the lenders.

More buyers would be able to finance purchase of these affordability restricted units if they could access secondary financing from the Commission. For certain practical and legal reasons, the Commission's standard second loan program cannot be combined with the recapture provisions of the land use programs. For that reason, a new second position loan is proposed. It would be a three percent (3%) interest deferred second loan, rather than the usual shared appreciation second loan.

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A two tiered program is recommended with larger loans available to lower income buyers. The first tier would assist households at 80 percent or below Area Median Income (AMI) by providing a loan not exceeding 25 percent of the affordable purchase price. The second tier would be for households earning 81-100 percent AMI with a maximum loan amount not exceeding 15 percent of the affordable purchase price. As shown on Attachment 2 to this report, the additional financial assistance provided by the deferred second trust deed loan would result in a substantial decrease in the debt to income ratio. This assistance will allow a significant number of low to moderate income families become qualified homebuyers.

Modifications to Other Second Loans

Since the creation of the various FTHB programs, sound business practices have dictated that the programs be reviewed and, if needed, refined periodically to ensure effectiveness. In May, 2004, the Housing Commission approved the creation of a deferred shared appreciation second trust deed loan program to assist renters earning 81-100 percent AMI that are affected by condominium conversions. The loans have a shared appreciation provision for 15 years and a maximum loan amount of \$15,000. Based on experience, it is recommended that the Condominium Conversion 100 percent AMI Loan Program be revised to increase the subsidy from \$15,000 to 15 percent of the purchase price. A typical loan is estimated to be \$56,250. The tenants affected by the condominium conversions would be purchasing units at market value and are likely faced with higher housing costs that may not be affordable to them. The increased subsidy may allow more renters to become homeowners. To achieve consistency with the programs and to reflect the significant increase in the Housing Commission's loan amount, it is recommended the shared appreciation provision be extended from 15 to 30 years.

Finally, it is proposed to delegate authority to the Members of the Housing Commission that would enable the Board to make future revisions to the FTHB Programs. This action is requested to alleviate some of the administrative burden from the Housing Authority and improve response time in implementing the revisions to assist the low to moderate income homebuyers.

FISCAL CONSIDERATIONS:

No additional money will be needed to fund the proposed or existing homebuyer programs in fiscal year 2006; the current budget has sufficient money available to fund all loan and grant requests.

AFFORDABLE HOUSING IMPACT:

With larger loans, fewer homeowners can be assisted. However, these changes are recommended to make the programs more useable by low and moderate income people.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

Refer to Attachment 1 for related actions.

KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):

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The developers and buyers of the affordable for-sale housing units will benefit from the addition of three percent interest deferred loans. It is anticipated the revisions to the Condominium Conversion 100 percent AMI Program will offer increased affordability to tenants in rental units that will enable them to purchase their existing units or anywhere within the City of San Diego.

Respectfully submitted,

**Signature on File
With Original Document**

Approved by,

Cissy Fisher
Director, Housing Finance and Development

Elizabeth C. Morris
President & Chief Executive Officer

Attachments: 1 - Previous Council and/or Committee Actions
2 – Financial Analysis

Distribution of these attachments may be limited. Copies available for review during business hours at the Housing Commission offices at 1625 Newton Avenue.

ATTACHMENT 1

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

- On March 10, 1981, City Council adopted the Density Bonus Program
- On June 15, 1992, (Report No. 92-173), Housing Commission approved the Housing Trust Fund's Recoverable Grant Program and Shared Appreciation Program.
- On July 20, 1992, (Report No. 92-196), Housing Commission approved the overall HOME Program allocation plan and allocated \$750,000 to the First Time Homebuyer's Assistance HOME Program Plan.
- October 1, 1992, City Council adopted the North Cities Future Urbanizing Framework Plan
- On February 22, 1993 (Report No. 93-044), Housing Commission approved a revision to the Shared Equity Program.
- On June 1, 2001 (Report No. 01-052), Housing Commission approved modifications to the FTHB Programs.
- On November 15, 2002 (Report No. 02-097) Housing Commission approved revisions to the FTHB Programs.
- On June 3, 2003, the City Council adopted the Inclusionary Housing Ordinance.
- On May 7, 2004 (Report No. 04-40) Housing Commission approved homeownership assistance for renters affected by condominium conversions
- On August 20, 2004 (Report No. 04-55) Housing Commission staff presented a workshop on the FTHB Programs to the Board.
- On December 10, 2004 (Report No. 04-99) Housing Commission staff proposed revisions to the Shared Equity Loan Program. Board postponed acting on item requesting staff to look into alternatives and bring the item back at a later date.
- On March 14, 2005 (Report No. 05-25) Housing Commission approved proposed revisions to the FTHB Programs.

ATTACHMENT 2

FINANCIAL ANALYSIS / DEBT to INCOME

Fair Market Value	\$350,000
Affordable Purchase Price	<u>\$243,310</u>
Difference	\$106,690 **

Buyers are required to have 3% of their own personal funds for a down payment. Eligible buyer may apply for a down payment/closing cost assistance grant (DP/CCAG) and MCC.

I. Proposed Financing - 80% or less AMI:

Assumptions:

1. Buyer is a family of 3 at 75% AMI (\$3,881 monthly).
2. 2nd TD loan is proposed 3% interest deferred loan. Amount is 25% of affordable purchase price
3. ** 3rd TD is the difference between fair market value of the property and the actual affordable price paid to purchase the property
4. Buyers receive a 6% DP/CCAG and MCC
5. Buyers have \$450 in monthly credit card/installment debts

The financing package under this proposal would be as follows:

Buyer's Down Payment	\$ 7,300	
HC's 6% DP/CCAG (\$14,599)		
Down Payment	\$ 8,179	
Closing Costs		\$6,420
1 st TD Private Lender	\$167,004	
2 nd TD HC	\$ 60,827	
3rd TD HC	<u>\$106,690 **</u>	
TOTAL	\$350,000	

- Buyers Housing Debt:
 - 1st TD (6.5% interest rate) \$ 1,056
 - Taxes 233
 - Homeowner's Dues 155
 - Less: MCC - 181Monthly Housing Debt \$ 1,263

- Installment Debts \$ 450
- TOTAL MONTHLY DEBT \$ 1,713**

Buyer's Housing Debt (front-end) Ratio: 33% (41% w/out 2nd TD)
Buyer's Total Debt (back-end) Ratio: 44% (52% w/out 2nd TD)

II. Proposed Financing – 81-100% AMI:

Assumptions:

1. Buyer is a family of 3 at 90% AMI (\$4,279 monthly).
2. 2nd TD loan is proposed 3% interest deferred loan. Amount is 15% of affordable purchase price
3. ** 3rd TD is the difference between fair market value of the property and the actual affordable price paid to purchase the property
4. Buyers receive a 4% DP/CCAG and MCC (20% credit/targeted census tract)
5. Buyers have \$450 in monthly credit card/installment debts

The financing package under this proposal would be as follows:

Buyer's Down Payment	\$ 7,300	
HC's 4% DP/CCAG (\$9,732)		
Down Payment	\$ 3,312	
Closing Costs		\$6,420
1 st TD Private Lender	\$196,202	
2 nd TD HC	\$ 36,496	
3 rd TD HC	<u>\$106,690</u> **	
TOTAL	\$350,000	

- Buyers Housing Debt:
 - 1st TD (6.5% interest rate) \$ 1,240
 - Taxes 233
 - Homeowner's Dues 155
 - Less: MCC - 213
- Monthly Housing Debt \$ 1,415
- Installment Debts \$ 450
- TOTAL MONTHLY DEBT \$ 1,865**

Buyer's Housing Debt (front-end) Ratio: 33% (38% w/out 2nd TD)
Buyer's Total Debt (back-end) Ratio: 44% (48% w/out 2nd TD)