



Good Neighbors
San Diego
Housing Commission

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REPORT

DATE ISSUED: August 13, 2004 **ITEM 105**

REPORT NO.: HCR04-55
 For the Agenda of August 20, 2004 (Postponed from July 23, 2004)

SUBJECT: Workshop on the First Time Homebuyer Programs (Citywide)

BACKGROUND

At the May 14, 2004 Housing Commission meeting, a new homebuyer program was approved for tenants currently occupying rental properties that are being converted to condominiums. Issues regarding the First Time Homebuyer Program were briefly discussed and staff suggested presenting a workshop discussion on the various homebuyer programs to the Board of Commissioners at a future date.

Sound business practices dictate that programs are reviewed and, if needed, refined periodically to ensure their continued effectiveness. There have been significant changes in the housing market that affect the viability of Housing Commission programs and create a need for possible revisions to the programs. Staff will give an overview of the various first time homebuyer programs, including the loan/grant terms and conditions, performance and history of programs. Staff will also discuss possible revisions to the programs as identified in Attachment 1. Any major revisions would be presented to the Board for consideration and approval at a later time.

Respectfully submitted, **Signature on File** Approved by,
With Original Document

Cissy Fisher Elizabeth C. Morris
 Director of Housing Finance and Development President & Chief Executive Officer

- Attachments:
1. First-Time Homebuyer Programs
 2. What is the Difference Between a Shared Equity Loans and Shared Appreciation Loan?
 3. Proforma Payoff Calculations for Shared Equity, Shared Appreciation and Interest Deferred Loans

Vicki Monce 619 578-7491 FTHB Workshop 8.20.04



FIRST-TIME HOMEBUYER PROGRAMS

ATTACHMENT 1

Programs	Area Median Income	Maximum Purchase Price	Loan/Grant Amount	Terms And Conditions	Asset Limitations	Funds Available	Administrative Fees
Second Trust Deed Loans							
Shared Equity	80%	\$375,250 Regulated by HUD	\$72,580 or 25% of purchase price or appraised value; whichever is less. (\$72,580 is 25% of HUD's published price for San Diego of \$290,319/June 2004). In March 2004, HUD approved an increase to the published price due to the high cost of housing in San Diego to \$375,250. Recommendation: 25% of purchase price or appraised value; whichever is less.	Shared Equity provision for the first 15 years. The loan term is a 30 year loan at 0% interest with no monthly payments.	\$7,500 for first household member and \$500 for each additional household member. Recommendation: Increase to \$10,000 for first household member.	HOME Funds \$998,749	10%
CalHome Mortgage Assistance	80%	No maximum purchase price. Price paid must be substantiated by a qualified appraiser.	25% of purchase price or appraised value; whichever is less.	Shared Appreciation provision for the full 30 year loan term, no interest and no monthly payments are due.	\$7,500 for first household person and \$500 for each additional household member. Recommendation: Increase to \$10,000 for first household member.	State Funds \$1,000,000	1% of loan amount, plus processing fees.
CCDC Downtown First-Time		Maximum purchase price is determined by calculating 35% housing ratio at 110% Area Median Income for a family size appropriate for the unit. Adjusted for family size means bedroom size plus one, ie. two-bedroom		Shared Appreciation provision for the full 30 year loan term, no interest and no monthly payments the first five years. Then level		CCDC Redevelopment	

FIRST-TIME HOMEBUYER PROGRAMS

ATTACHMENT 1

Programs	Area Median Income	Maximum Purchase Price	Loan/Grant Amount	Terms And Conditions	Asset Limitations	Funds Available	Administrative Fees
Homebuyer Program	120%	appropriate for three person family	\$75,000	monthly payments begin in year six.	Not to exceed \$75,000	Funds \$770,000	\$4,500 per loan
Second Trust Deed Loans							
Condominium Conversions	100%	Proposed: No maximum purchase price. Price paid must be substantiated by qualified appraiser.	\$15,000	Shared Appreciation for the first 15 years. The loan term is a 30 year loan, no interest and no monthly payments.	None required	Inclusionary Housing Funds \$280,000 currently available. FY05 budget estimates \$890,000 will be available during the year from payment of in-lieu fees.	10%
Condominium Conversions	80%	\$375,250 Regulated by HUD	\$72,580 or 25% of purchase price or appraised value; whichever is less. (\$72,580 is 25% of HUD's published price for San Diego of \$290,319/June 2004). In March 2004, HUD approved an increase to the published price due to the high cost of housing in San Diego to \$375,250. Recommendation: 25% of purchase price or appraised value; whichever is less.	Shared Equity provision for the first 15 years. The loan term is a 30 year loan, no interest and no monthly payments.	\$7,500 for first household member and \$500 for each additional household member. Recommendation: Increase to \$10,000 for the first household member.	HOME Funds \$1,000,000	10%

FIRST-TIME HOMEBUYER PROGRAMS

ATTACHMENT 1

Programs	Area Median Income	Maximum Purchase Price	Loan/Grant Amount	Terms And Conditions	Asset Limitations	Funds Available	Administrative Fees
Down Payment Loans and Grants							
Down Payment Assistant Grant	100%	\$375,250 Consistent with HUD maximum.	\$7,500 or 4% of purchase price; whichever is less. The 4% will be comprised of 2% for the down payment with balance used for closing costs. Recommendation: Increase to \$10,000 or 4% of purchase price; whichever is less.	This is a recoverable grant. If property is sold or refinanced within the first six years, the grant is due and payable. After six years, the grant is forgiven.	\$3,500 for first household member and \$500 for each additional household member. Recommendation: Increase to \$10,000 for the first household member.	Housing Trust Fund \$165,197	10%
American Dream	80%	\$375,250 Regulated by HUD	Program in planning stages. Maximum loan/grant amount is 6% of purchase price, not to exceed \$22,515. Proposed: Use majority of the program funds to supplement shared equity loan. Remainder used for the downpayment assistance grants to free-up Housing Trust Fund dollars.		Proposed: \$10,000 for the first household member.	HUD Funds \$951,764	1% of loan amount
Mortgage Credit Certificate (MCC)		STATE REGULATED PROGRAM – CONDITIONS ARE ESTABLISHED BY IRS					
Nontargeted	115%	Resale \$383,039 New \$437,325	15% Tax Credit		None	43 Certificates	\$400 annual lender participation fee and \$250 per MCC issued
Targeted	140%	Resale \$468,158 New \$534,508	20% Tax Credit		None	15 Certificates	\$400 annual lender participation fee and \$250 per MCC issued
Low Income	80%	Resale \$468,158 New \$534,508	20% Tax Credit		None	41 Certificates	\$400 annual lender participation fee and \$250 per MCC issued

ATTACHMENT 2

WHAT IS THE DIFFERENCE BETWEEN A SHARED EQUITY LOAN AND SHARED APPRECIATION LOAN?

Shared Equity Loan Program

The Housing Commission (HC) has operated a Shared Equity (SE) Loan Program since 1992. The shared equity loan has a 30-year term with no interest or monthly payments due. The equity sharing provision is as follows:

If the borrower sells the property or pays off the SE loan within the first 15 years, the equity in the property is shared with the HC. If the property is sold in the 1st year, the equity is split 50/50. The equity is defined as the difference between the sales price and the sum of the following deductions:

- Orig. amount of 1st TD
- Orig. amount of HC loan
- All cost of sale; escrow, title, brokers fee
- Current year taxes
- Borrower's down payment
- Cost of improvements approved by the HC

The amount of the borrower's share in the equity increases 1% per year.

Shared Appreciation Loan – Centre City Development Corporation (CCDC) Downtown First Time Homebuyer Program

The HC has administered the CCDC Program since 2002. A CCDC loan has a 30-year loan term at 0% interest with no payments the first 5 years. Then level monthly payments begin in year 6. The shared appreciation provision is as follows:

For the first 30 years, CCDC's share of appreciation equals CCDC's original loan amount divided by the original purchase price. For example, if CCDC's loan is \$75,000 and the original purchase price was \$250,000, the share of appreciation is 30% ($75,000 / 250,000 = 30\%$). To calculate the amount due CCDC for their share of appreciation, you subtract the original purchase price from the resale price.

Resale price	\$350,000
Less: Original purchase price	<u>250,000</u>
	\$100,000

CCDC's share of appreciation is 30% of \$100,000 or \$30,000. Note: although the loan has a term of 30 years the SA restrictions are for 45 years. From year 30 to year 45, CCDC's share of appreciation is reduced by 50%.

ATTACHMENT 2

Shared Appreciation Loan – CalHome First Time Homebuyer Mortgage Assistance Program

The HC has administered the CalHome Mortgage Assistance Program since 2000. Previous funds from the State only allowed a 0 – 3% interest rate with deferred payments. The recent allocation allowed recipients to charge interest or have a shared appreciation (SA) provision; the HC opted to have the SA provision. The loan term is 30-years with no interest or monthly payments due. The SA provision is as follows:

If the borrower sells the property or pays the CalHome loan in full, they are to pay the HC a share of the net appreciation. The net share of appreciation is calculated as follows:

- Determine gross appreciation by subtracting the orig. purchase price from the resale price.

Resale price	\$350,000
Less: Orig. purchase price	<u>250,000</u>
Gross Appreciation	\$100,000

- Net appreciation is calculated by subtracting seller's (our borrower) applicable closing costs, down payment and cost of improvements approved by the HC from the gross appreciation.
- The max. net appreciation is equal to the percentage of the value of the residence financed by the CalHome loan. If the CalHome loan equals 20% of the orig. purchase price, then a max. of 20% of the appreciation is the most the HC can receive.

ATTACHMENT 3

PROFORMA PAYOFF CALCULATIONS FOR SHARED EQUITY, SHARED APPRECIATION AND INTEREST DEFERRED LOANS

Assumption:

In March 2004 a family of four earning 80% of AMI (\$54,800 annually/\$4,567 monthly) purchases a home.

Purchase Price	\$320,000	
5% Down Payment	16,000	
1 st Trust Deed Loan (70% of value)	224,000	
HC 2 nd Trust Deed Loan (25% of value)	80,000	
Loan Payments for Single Family Dwelling:		
1 st Trust Deed Loan	\$ 1,343	
Property Taxes	333	
Fire Insurance	65	
Total	\$ 1,741	Housing Debt Ratio 38%
Loan Payments for Condominium		
1 st Trust Deed Loan	\$ 1,343	
Property Taxes	333	
HOA	225	
Total	\$ 1,901	Housing Debt Ratio 42%

In July 2009 the property is sold for \$448,800 (assuming a 7% annual appreciation).

I. Shared Equity Loan

Pursuant to the shared equity provisions, the Housing Commission will receive 45% of the net equity or \$53,280. Please refer to Attachment 1 for details regarding the calculation.

ATTACHMENT 3

II. Shared Appreciation Loan

Housing Commission's original investment in the property was 25% of the purchase price ($\$320,000 / \$80,000 = 25\%$).

Resale Price	\$448,800
Less: Original Purchase Price	<u>320,000</u>
Gross Equity	\$128,800

Housing Commission's share of appreciation is 25% of \$128,800 or \$32,200.

III. Deferred Interest Loan

Loan terms have a 5% simple interest rate, deferred for 30 years. The interest due the Housing Commission if loan is paid in full in July 2009 is \$21,975.