



Good Neighbors

San Diego  
Housing Commission

## REPORT

**DATE ISSUED:** November 23, 2004

**ITEM 103**

**REPORT NO.:** HCR04-99  
For the Agenda of December 10, 2004

**SUBJECT:** Proposed Revision to the Shared Equity Loan Program (Citywide)

### SUMMARY

**Issue:** Should the Housing Commission modify the Shared Equity Loan Program to account for larger cost per unit?

**Recommendation:** That the Housing Commission: 1) extend the equity sharing term for the Shared Equity Loan Program from 15 years to 30 years; and (2) change the equity sharing formula to start with a 50/50 split and annual reduction of the Housing Commission's share at one percent per year for ten years, followed by two percent per year for twenty years.

**Fiscal Impact:** This change in the Shared Equity Loan Program may result in higher return on invested funds over time; however, use of proceeds would continue to be governed by requirements of the original funding sources.

**Previous Related Action(s):** On June 15, 1992, (Report No. 92-173), the Housing Commission approved the Housing Trust Fund's Recoverable Grant Program and Shared Appreciation Program. On July 20, 1992, (Report No. 92-196), the Housing Commission approved the overall HOME Program allocation plan and allocated \$750,000 to the First Time Homebuyer's (FTHB) Assistance HOME Program Plan. The Housing Commission approved modifications to the FTHB Programs on February 22, 1993 (Report No. 93-044), June 1, 2001 (Report No. 01-052), and November 15, 2002 (Report No. 02-097)

## **BACKGROUND**

In June 1992, the Housing Commission approved the creation of a shared equity loan program; since then, there have been three modifications to the program. In February 1993, the Housing Commission approved the current equal equity share formula. The current formula is 50 percent homebuyer/50 percent Housing Commission share with a reduction in the Housing Commission's share of one percent per year for 15 years, after which time 100 percent of equity belongs to the homeowner and the Housing Commission is paid only the principle balance of its loan. In 1993, the maximum loan was \$25,000. In July 2001, the loan limit was increased from \$25,000 to \$40,000 or 25 percent (up from 20 percent) of the purchase price, whichever is less. In September 2002, the Housing Commission approved a third modification to increase the loan limit to 25 percent of the lesser of appraised value or the HUD maximum purchase price (currently \$375,250).

## **DISCUSSION**

Sound business practices dictate that programs should be reviewed and, if needed, refined periodically to ensure continued effectiveness. Homebuyer programs were discussed with the Board at a workshop on August 20, 2004. Subsequently, staff reviewed all elements of the Housing Commission's FTHB program and also evaluated programs offered by other jurisdictions to develop the two changes recommended in this Report.

Since the first shared equity loan was funded in September 1993, more than 1,000 homebuyers have utilized this second trust deed loan program to assist them in buying their first homes. In recent years, the Housing Commission's financial investment in a single purchase has increased significantly from a potential maximum of \$25,000 to \$93,812; current average is approximately \$80,000.

Under current program guidelines, the Housing Commission requires repayment of the principal plus a 50 percent share of net equity during the first year of ownership, with the homeowner's share increasing by one percent annually to year 15, after which time the Housing Commission relinquishes claim to its remaining share (35 percent). When the homeowner sells after year 15, the homeowner pays back only the loan principle to the Housing Commission. While overall the Shared Equity Loan Program remains effective, staff believes that the increase in per-family cost warrants extension of the period over which the Housing Commission will share in any equity gain. In addition, an extension to 30 years will bring the program in line with a revision to the City's Inclusionary Housing Ordinance recently endorsed by the Board.

Staff also recommends that the formula for the Housing Commission's share of equity be changed to reduce at one percent per year for the first ten years and then to accelerate to two percent per year (Attachment 1). This formula will encourage owners to remain in place to promote neighborhood stabilization and allow the Housing Commission to participate in equity appreciation for a longer period of time to acknowledge the greater risk inherent in the increased cost per home purchase.

### **ALTERNATIVES**

1. Change Shared Equity Program: Change recommended term (30 years) or formula (50/50 split with one percent reduction for ten years and two percent per year for twenty years) in a different way.
2. Use Shared Appreciation Program: The Housing Commission's earnings from a Shared Equity program loan diminish over time as a percent of the equity (by year 30, the Housing Commission's equity share drops to zero and homeowner only repays principal). However, Shared Equity does accomplish the major program goal of rewarding long-term participation in the program and neighborhood stability. Redevelopment and Density Bonus programs use a shared appreciation approach whereby, in addition to the repayment of the principal balance, the borrower would pay the Housing Commission an amount equal to the Commission's share of the appreciation in value of the property regardless of how long the borrower stayed at the property. Appreciation is defined as the difference between the original purchase price and the new sales price. The Housing Commission's share of appreciation would equal the Commission's original loan amount divided by the original purchase price. For example, if the original purchase price were \$350,000 with a Housing Commission loan of \$87,500, the Commission's share of appreciation would be 25 percent ( $\$87,500/\$350,000 = 25\%$ ). The benefit of this approach is based only on appreciation rates; other programs goals are not addressed. Should the Board so desire, staff could bring forward a more detailed Report on this program model for discussion.

Respectfully submitted,

Approved by,

**Signature on File  
With Original Document**

Cissy Fisher  
Director Housing Finance and Development

Elizabeth C. Morris  
President & Chief Executive Officer

## Attachment 1

### SHARED EQUITY CHARTS

#### Current Chart

Length of Ownership at the Time of Resale	Share of Equity to Homebuyer	Share of Equity to Housing Commission
1	50	50
2	51	49
3	52	48
4	53	47
5	54	46
6	55	45
7	56	44
8	57	43
9	58	42
10	59	41
11	60	40
12	61	39
13	62	38
14	63	37
15	64	36
16	100	0

### Proposed Chart

Length of Ownership at the Time of Resale	Share of Equity to Homebuyer	Share of Equity to Housing Commission
1	50	50
2	51	49
3	52	48
4	53	47
5	54	46
6	55	45
7	56	44
8	57	43
9	58	42
10	59	41
11	60	40
12	62	38
13	64	36
14	66	34
15	68	32
16	70	30
17	72	28
18	74	26
19	76	24
20	78	22
21	80	20
22	82	18
23	84	16
24	86	14
25	88	12
26	90	10
27	92	8
28	94	6
29	96	4
30	98	2
31	100	0