



REPORT

ITEM 103

DATE ISSUED: August 8, 2003

REPORT NO.: HCR03-049
For the Agenda of August 15, 2003

SUBJECT: Application for State of California CalHome Program Funding
(Citywide)

SUMMARY

Issue: Should the Housing Commission seek funding from the State of California CalHome Program (CalHome) in support of homeownership?

Recommendation: That the Housing Commission recommend the City Council authorize an application to the State of California for up to \$3 million in funding from the CalHome Program in support of homeownership.

Fiscal Impact: Approximately \$1,000 in legal expenses to revise existing CalHome Program loan documents. This is offset by approximately \$10,000 expected in loan origination fees.

Affordable Housing Impact: A \$3 million allocation would provide borrowing opportunities for a minimum of 51 low-income families who would be assisted in the purchase of their first home. Homebuyer's household income would be at or below 80 percent of Median Area Income (currently \$51,050 for a family of four).

Previous Related Action(s): On January 30, 2001, the City Council authorized an application to the State of California for CalHome Program funds.

BACKGROUND

The State of California, through SB1656, established the CalHome Program in support of homeownership. The Department of Housing and Community Development (HCD) is administrator of \$25 million in funding for homeownership included in the Fiscal



Year 2002 State Budget. The program goal is to enable low and very-low income households to become or remain homeowners. HCD will make grants to experienced local public agencies and nonprofit developers to assist individual households.

In November 2000, HCD issued a Notice of Funding Availability (NOFA). The City of San Diego was awarded \$500,000 in response to an application submitted to HCD. The funds were to be divided equally between first time mortgage assistance and owner-occupied rehabilitation. The CalHome Program guidelines were extremely restrictive with no flexibility. The limitation resulted in only five first time mortgage assistance loans funded over a period of 17 months, totaling an expenditure of \$94,444 in CalHome Program funds. No funds were expended for owner-occupied rehabilitation. All agencies and nonprofit corporations that received CalHome Program funds were notified in January 2003 that waivers could be requested regarding any program guideline. Housing Commission staff requested a number of waivers, such as allowing the CalHome loans be underwritten in accordance with Housing Commission policies and increasing the loan amount from the CalHome Program limit of an average \$20,000 per loan to match the San Diego Housing Commission's Shared Equity Loan Program (maximum \$70,187). All waivers were approved. Because the funds still had to be spent in a relatively short period of time, the \$250,000 set aside for rehabilitation was transferred to the First Time Homebuyer Mortgage Assistance Program. By May 2003, all CalHome Program funds were expended.

On July 16, 2003, HCD issued a NOFA for \$25 million for 1) first time homebuyer mortgage assistance programs; 2) owner-occupied rehabilitation programs; 3) homeownership development project loans. The funds are provided by Proposition 46, the Housing and Emergency Shelter Trust Fund Act of 2002, that provides funding to local public agencies or nonprofit corporations for eligible activities within the CalHome Program. Applications under this NOFA are due to HCD on September 17, 2003. If successful, it is anticipated that HCD will issue a letter of commitment in November 2003, with funds available to eligible buyers in January 2004.

DISCUSSION

It is anticipated that the CalHome Program funds will be another tool in the Housing Commission's existing homeownership program.

The CalHome Program Regulations have been revised as an outcome of the program's operational experience over the past three years, and were greatly influenced by feedback from the recipients of previous CalHome Program awards. An important feature of the new regulations is increased flexibility to allow for varied loan program design. The revised CalHome Program guidelines allow the applicant to determine the maximum loan amount and underwriting terms and conditions.

The NOFA states the maximum application amount cannot exceed \$500,000. An exception will be made for a city or county expected to have a higher demand for assistance as evidenced by a population in excess of 400,000, in which case the maximum amount will not exceed \$1 million. The City of San Diego meets the exception and will apply for the maximum of \$1 million if approved by the City Council. HCD has \$25 million available in 2002 funds. They anticipate issuing another NOFA for 2003 and 2004 funds in six months after awarding the \$25 million. Staff would like approval to apply under the anticipated NOFAs, hence the inclusion of a maximum application amount of \$3 million in the recommendation.

Staff is recommending the application for CalHome funds be used for the First Time Homebuyer Mortgage Assistance Program. The CalHome guidelines and program regulations provide for the following:

1. Individual agencies receiving the CalHome funds can establish their own underwriting guidelines.
2. The CalHome mortgage assistance to individual households must be made in the form of a loan.
3. Maximum loan amount to individual homebuyers can not exceed the required amount of subsidy needed to make the unit affordable.
4. Principal and interest payments are to be deferred for the term of the CalHome loan (30 years). Loans are repayable upon sale or transfer of the property, when the property ceases to be owner-occupied, or upon the maturity date. Loans can bear simple interest up to three percent per annum or have a shared appreciation provision equal to the percentage of the value of the residence financed by the CalHome Program funds.

Housing Commission staff is proposing the CalHome mortgage assistance loan be underwritten in accordance with the existing Housing Program Lending Authority Policy No. 600.101. The maximum loan amount would be 25 percent of the purchase price not to exceed \$70,187, consistent with the San Diego Housing Commission's Shared Equity Loan Program. Staff is also recommending the CalHome loans have the shared appreciation provision. It is believed the overall market conditions will increase at a rate greater than the maximum three percent interest rate allowed under the program guidelines.

The source of funds for the CalHome NOFA is the sale of a general obligation bond that require funds be expended for the acquisition of a capital asset. Historically, no funds for the local administration of bond funded programs have been allowed; however, HCD has requested an opinion from the State Attorney General's office regarding this matter. As of the date the NOFA was issued the Attorney General's

office had not rendered its opinion on the potential for administrative funds for the program. The 2000 CalHome Program funds received by the Housing Commission included an administration fee of \$350 for each mortgage assistance loan funded, no other fees could be charged. Under the current NOFA, HCD will allow the local agencies to charge their usual loan fees. The loan fee charged the buyers for a shared equity loan is one percent of the Housing Commission's loan (\$585 average). Staff is recommending loans funded through the CalHome Program charge a loan fee of one percent of the loan amount to the buyers. These fees would total approximately \$10,000 for each \$1 million in CalHome funds expended for the First Time Homebuyer Mortgage Assistance Program.

The infusion of \$1 million in first time homebuyer program funds would benefit about 17 low income families. Considering the modest costs of program application and administration, it is recommended that the Housing Commission proceed with this application on behalf of the City of San Diego.

ALTERNATIVES

Do not make an application to the State of California at this time.

Respectfully submitted,

Approved by,

Jack D. Farris
Housing Finance and Development Manager

Signature on File with Original Document

Elizabeth C. Morris
Chief Executive Officer