



# REPORT

**DATE:** For the Agenda of June 28, 2002 **Item 101**

**REPORT NO:** HCR02-058

**SUBJECT:** Loan to San Diego Habitat for Humanity for Property Acquisition  
(Council District 8)

## SUMMARY

**Issue:** Should the San Diego Housing Commission approve a loan of \$57,000 to assist San Diego Habitat for Humanity in developing two single family homes for families with very low incomes?

**Recommendation:** That the Housing Commission approve an unsecured 21-year amortizing recourse loan of \$57,000 at zero percent interest to San Diego Habitat for Humanity for acquisition costs related to two vacant lots located at 3280 and 3284 Island Avenue.

### Fiscal Impact:

Certificate No.:	02-160
Amount:	\$57,000
Revenue Source:	HOME
Division:	Housing Finance & Development
Line Item:	Loans

**Affordable Housing Impact:** New construction of two single family homes for sale to households with very low income (at or below 50 percent of median area income, presently \$30,050 for a family of four).

**Environmental Review:** The project has been approved as exempt from California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15060 (c)(3) (the activity is not a project as defined in Section 15378).

**Previous Related Actions:** Loan Committee approved this item on June 11, 2002, with the proviso that the loan from Habitat for Humanity to the borrower contains owner-occupancy restrictions.



**HOME Program Compliance:** An acquisition-new construction loan for homeownership to a non-profit entity is an eligible activity under the HOME Program. The proposed homebuyers' incomes are 80% or below MAI.

## **BACKGROUND**

This request for funding was received under the Housing Trust Fund Targets of Opportunity Program that provides consideration of proposals for which the Request for Proposals (RFP) process is not suitable. Typically, these proposals involve opportunities that have severe time constraints precluding RFP schedules or they are for innovative projects not anticipated by the RFP process. Currently, the Housing Commission does not plan to issue an RFP for acquisition of property for construction of single-family homes.

## **DISCUSSION**

### Habitat for Humanity

San Diego Habitat for Humanity (Habitat) is a local nonprofit 501(c) (3) corporation affiliated with a major international organization. The local Habitat chapter was formed in 1987. To date, in the San Diego region, Habitat has completed construction of 48 houses and will complete construction of an additional 8 homes by the end of 2002. Habitat has a paid staff of eleven, an 18-member board of directors, and an active volunteer base.

Habitat has three loans with the Housing Commission and all are current:

1. 3933 Gamma Street  
San Diego, CA 92113  
Loan of \$25,000 funded 7/00 maturing 7/21  
\$22,817.38 remaining balance as of 5/10/02  
1 single family house
2. 875, 885, 895 Iona Street  
880, 890, 920, 930 60<sup>th</sup> Street  
San Diego, CA 92115  
Loan of \$70,303.85 funded 5/90 maturing 10/11  
\$33,099.20 remaining balance as of 5/10/02  
7 single family houses
3. 4025 Broadway  
1005 40<sup>th</sup> Street  
San Diego, CA 92105  
Loan of \$37,500 funded 5/99 maturing 4/21  
\$33,779.75 remaining balance as of 5/10/02  
2 single family houses

The development team for this project consists of Joe Carton (Construction Superintendent), Bill Kurimay (Construction Coordinator), Steve Kiss (Architect), AMEC Earth and Environments, Inc. and Jim Rowan (Architect).

Habitat has submitted an audited financial statement for the period ending June 30, 2001. According to that statement, Habitat had net assets of \$2.6 million, consisting primarily of mortgages and contracts receivable related to homes Habitat has built and sold. Habitat does not maintain a reserve account to cover defaults on these loans because management believes the value of the collateral will prevent any losses.

### The Properties

The two properties are located at 3280 and 3284 Island Avenue in the Grant Hill/Stockton neighborhood. The lots are adjacent and will be used to build two three-bedroom, one and a half bathrooms homes. The development plan complies with the current zoning.

Habitat purchased the lots from Mr. Barry Collins (a private party) for \$57,000, which is well below the market value of \$44,000 per lot indicated in appraisals dated October 2001.

### The Habitat Program

In place of a cash downpayment, each homebuyer household is required to work 500 hours of "sweat equity" during construction and the first year of occupancy.

Habitat will make each home available to a household with an income not exceeding fifty percent of median area income (currently \$30,050 for a family of four) with Habitat carrying the mortgage. The total monthly housing payment for mortgage, taxes and insurance would be approximately \$800 per month. Habitat will not charge interest on this loan.

Should the homebuyer household decide to sell the home, Habitat will retain the right of first refusal to purchase during the life of the mortgage. The purchase price is determined by a formula that establishes the difference between fair market value and the original sales price of the property (the "appreciated value" of the property), then allows the household a percentage of any appreciation (increasing from 1% in year one to 100% in year 20) plus the original sales price. Habitat maintains a waiting list of Habitat-qualified families to whom the seller agrees to give preference for 120 days at the formula-derived "affordable" price. At the end of 120 days, an owner may sell the home on the private market but must share the appreciation with Habitat according to the same percentage/time formula.

Habitat estimates that its total development cost for these two homes is approximately \$210,000. An estimated 73% of the total cost is offset by the use of volunteer workers and donated supplies.

### The Funding Request

Habitat purchased the lots in advance of a commitment from the Housing Commission and is fully aware that the Housing Commission is in no way obligated to reimburse Habitat for the acquisition costs.

Habitat is requesting \$57,000 to pay for the purchase of the lots. Closing costs were paid with other Habitat funds. This structure is similar to the other single-family developments that Habitat has completed utilizing Housing Commission funds.

### The Financial Plan

Total Loan:	San Diego Habitat for Humanity will receive an unsecured loan of \$57,000.
Recourse:	The loan will be a recourse loan.
Payments and Term:	The loan will amortize over 21 years with monthly payments.
Interest:	Zero interest will be charged for this loan.
Affordability Restrictions:	The home will be sold to a household earning 50 percent or below median area income. Habitat will retain a right of first refusal upon sale so that the home may be resold to another qualifying household because the HOME restrictions are for 20 years of affordability.

### Risks and Mitigations

The loan would be unsecured. However, because the loan represents only a small portion (approximately 28 percent) of the sales price that Habitat will be collecting in monthly payments from homeowners, Habitat would have adequate income to make monthly payments to repay the loan. In addition, Habitat has made timely payments on the amortizing loans currently outstanding with the Housing Commission. The amortization of this loan will reduce the risk over time.

Habitat has a successful record of securing funds, labor and materials to complete its homebuilding projects.

### Summary

This loan would provide homeownership opportunities for two households at 50 percent of median area income. This affordability compares favorably with the Housing Commission's homebuyer programs, for which the average income is 65% of median area income. The Housing Commission's cost of these units (\$28,500 per unit) is less than the average cost of a shared equity second position loan plus a downpayment assistance grant (approximately \$38,950). Given these positive factors, and Habitat's track record of success in making

homeownership possible for families at 50 percent of median area income, staff recommends funding the unsecured loan to encourage and facilitate Habitat's homeownership endeavors.

### **ALTERNATIVE**

Secure the loans with the two properties. This alternative is not recommended because the homebuyers would then be making their payments directly to the Housing Commission, and staff would be servicing two loans instead of one. The homebuyers would not be able to take advantage of the type of financial assistance offered by Habitat, such as extended loan terms or accommodation should the homebuyer experience financial hardship.

Respectfully submitted,

Approved by,

**Signature on File with Original Document**

Jack D. Farris  
Manager, Housing Finance & Development

Elizabeth C. Morris  
Chief Executive Officer

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- Attachments:
1. Location Map
  2. Project Development Summary
  3. Project Timeline
  4. SDHC General Application
  5. Appraisals
  6. Audited Financial Statements of June 30, 2001\*

\*Distribution of this attachment is limited. A copy is available for review at the Housing Commission's 1625 Newton Avenue office and the office of the City Clerk, 2nd floor, 202 "C" Street.