



Good Neighbors

San Diego
Housing Commission

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- San Diego, California 92113-1038
- 619/231 9400
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REPORT

DATE: For the Agenda of January 19, 2001

REPORT NO: HCR 01-011

ITEM 103

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

SUMMARY

Issue: Should the San Diego 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 application to the State of California for up to \$1,000,000 in funding from the CalHome Program in support of homeownership.

Fiscal Impact: Approximately \$2,500 in legal expenses to set up the new program loan documents. This is offset by approximately \$16,000 in administrative fees expected from the program.

Affordable Housing Impact: A \$1,000,000 allocation would expand borrowing opportunities for a minimum of 50 low-income families who would be assisted either in the purchase of their first home or in the rehabilitation of their existing home. Homebuyers household income would be at or below 80 percent of Median Area Income (currently \$42,950 for a family of 4).

BACKGROUND

CalHome Program

The State of California, through SB1656, established a new program entitled the CalHome Program in support of homeownership. The Department of Housing and Community Development (HCD) is administrator of \$50 million in funding for homeownership housing included in the Fiscal Year 2000-2001 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 through deferred-payment loans.

HCD issued a Notice of Funding Availability (NOFA) on November 7, 2000 for \$34 million for assistance to 1) first-time homebuyer mortgage assistance programs; 2) owner-occupied rehabilitation programs; or 3) homeownership development project loans. Applications under this NOFA are due to HCD on February 8, 2001. A copy of the NOFA is included as Attachment 1. If successful, it is



anticipated that HCD will issue letters of commitment in April 2001, with a funding time-line of 28 months from the date of the commitment letter.

Household Income

According to the City's current Housing Element, approximately 406,000 households live in the City of San Diego. Forty-one percent (41%) of these households or 165,000 are low-income, thus earning 80% or less than the median area income (MAI)

The U.S. Department of Housing and Urban Development has established \$53,700 as the 2000 median annual area income for a family of four in the San Diego region. Applying that amount to a household of four, a low-income household at 80 percent MAI earns \$42,950.

Housing Affordability/Homeownership Rates

The California Association of Realtors recently reported several statistics regarding affordability of housing in California. In October 2000, housing affordability in California fell to 30 percent, while in San Diego, affordability was 23 percent, making it the least affordable area in Southern California. In other words, only 23 percent of households in San Diego can afford to purchase a home. As a perspective, nationwide affordability was at 54 percent in October. Additionally, the proportion of first-time homebuyers dropped from 42.4 percent last year to 39 percent and was the lowest market share of first-time homebuyers in the past 10 years.

While the national homeownership rate is at a record high of 67.7 percent (as of the third quarter of 2000), the rate in San Diego is approximately 56 percent.

According to the October 2000 statistics compiled by Dataquick, the median price of a home (both detached and condominiums) in San Diego County was \$241,000.

Given this affordability data, many families in the low- and moderate-income categories cannot afford to purchase a home in San Diego without homeownership assistance.

Homeownership Assistance

Since the early 1990s the Commission has utilized federal, state and local assistance to help over 3,000 low- and moderate-income households purchase a new home through its First-Time Homebuyer Program. The Mortgage Credit Certificate program is now the cornerstone of the Commission's First-Time Homebuyer Program and provides purchasing leverage along with the Commission's Shared Equity Program and the Down Payment Assistance Grant Program. These financing mechanisms assist families in increasing the amount of home for which they can qualify.

The primary objective of the housing rehabilitation program is the development of decent housing and suitable living environments principally for persons of low and moderate income through preservation and improvement of existing housing stock. To achieve this objective, the Commission provides property owners with technical assistance and favorable financing terms through below market interest rate loans and grants. The Commission has assisted over 3,000 owner-occupied households rehabilitate their home under the rehabilitation program which has been in existence for

twenty years.

The financial and social benefits of homeownership are many and extend well beyond those experienced by the homeowners themselves. Homeownership gives a family stability, tax benefits, financial security and pride of ownership. In addition, the availability of affordable homeownership opportunities helps San Diego stabilize communities, broaden its tax base and attract and retain business. These benefits apply whether the households are low- or moderate-income and employed in a service industry; or middle-income and employed in the growing communications and biotech industries. Both groups of employees are vital to the City and regional economic health.

DISCUSSION

It is anticipated that the CalHome funding would be another tool in the Commission's already existing homeownership and rehabilitation programs.

The Commission's application request would include funding in the amount of \$500,000 (maximum allowed by CalHome) for two homeownership programs as described below. The maximum aggregate application amount cannot exceed \$500,000. Staff is recommending application for the full amount. If HCD does not receive enough acceptable applications to allocate the entire \$34 million, another NOFA will be issued. Staff would like to be poised to apply under the additional NOFA, hence the inclusion of a maximum application amount of \$1,000,000 in the recommendation.

1. Downpayment Assistance for First-Time Homebuyers - \$250,000.

This program would allow for a deferred loan (at 3% interest) to a first-time homebuyer earning at or below 80 percent MAI and purchasing a single-unit property. The homebuyer would pay back the loan, plus 3% interest, when the home is sold, refinanced or no longer continues to be owner-occupied. This differs from the Commission's current deferred loan program (shared equity loan) which is a silent second loan with zero percent interest. The CalHome Program states that the loan average cannot exceed \$20,000 and the loans can range from \$5,000 to \$30,000. Given this constraint, staff will monitor to assure that an average loan size of \$20,000 is maintained and that the loan amounts are within the CalHome Program range. Homebuyers will be required to attend homebuying education classes.

The Commission will receive an administrative fee (over and above the above \$250,000 funding for loans) from the CalHome Program of \$250.00 per closed loan. This fee would total approximately \$3,500.

2. Owner-Occupied Rehabilitation Assistance - \$250,000

This program would allow for a deferred loan (at 3% interest) to an existing homeowner of a single-unit property and earning at or below 80 percent MAI. The loans would be used to rehabilitate the property. Using the allowable loan range from \$5,000 to \$30,000 gives the Commission more latitude to assist homeowners already on a waiting list for the Commission's already established rehabilitation programs.

The Commission will receive an administrative fee (over and above the \$250,000 funding for loans) from the CalHome Program of 5% per closed loan. This fee would total \$12,500.

All repayments of loan principal and any loan interest shall be deposited into a separately maintained reuse account and can be used by the Commission for additional loans. Additionally, five percent of the funds deposited may be used toward the costs of loan servicing by the Commission.

It is anticipated that both of these programs can be accommodated into the workload of the Commission staff without a change in the current staffing levels.

The CalHome Program Guidelines defines an eligible applicant as a local public agency as defined in Section 50077 of the Health and Safety Code. Under this definition, approval by the City Council of the City of San Diego is required for this application. The resolution authorizing the application would include language that would allow the City to delegate to the San Diego Housing Commission the responsibility to make application for funding, receive the funding, amend the Commission's budget, and administer the CalHome Program.

CONCLUSION

In summary, the introduction of the first-time homebuyer and rehabilitation programs have benefited the quality of life of many San Diego's households. Considering the modest costs of program application and administration, it is recommended that the Commission proceed with this application on behalf of the City.

ALTERNATIVES TO RECOMMENDATION

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

Respectfully submitted,

Patricia Duplechan
Director, Housing Programs

BRYANT

Attachment:

1. CalHome Program Notice of Funding Availability

Approved by,

Elizabeth C. Morris
Chief Executive Officer

**Signature on file
With Original Document**



CalHome Program
Notice of Funding Availability (NOFA)

General Funding

Mortgage Assistance * Owner-Occupied Rehabilitation * Development Loans

November 7, 2000

The California Department of Housing and Community Development (HCD) is pleased to announce that it is accepting applications under the CalHome Program. This Notice is for approximately \$34 million to provide funding to local public agencies or nonprofit corporations for the following eligible activities within the CalHome Program:

- First-Time Homebuyer Mortgage Assistance
- Owner-Occupied Rehabilitation
- Homeownership Project Development Loans

The CalHome Program was established by SB 1656 (Alarcon), which created Chapter 6 (commencing with Section 59650) and added it to Part 2 of Division 31 of the Health and Safety Code. The CalHome Program is a homeownership program designed to make funds available to a city, county, city and county, or nonprofit corporation to support existing homeownership programs aimed at low- and very low-income households and operated by the local public agency or the nonprofit corporation.

The CalHome Program operates under guidelines adopted on November 2, 2000. These guidelines are available on HCD's web site at www.hcd.ca.gov. (All Section references in this NOFA refer to these guidelines unless otherwise noted.)

Several of the terms used in the CalHome Program have specific meanings defined by the Program Guidelines. For proper completion of the application, HCD urges potential applicants to review the Program Guidelines, the CalHome 2000 Application Training Manual and to attend the application workshops. These documents will be available at the application workshops.

Eligible Applicants:

Any California city, county, city and county or nonprofit corporation, who is authorized to engage in, or assist in the development of housing or operation of housing programs for persons and households of low- or very low- income, is eligible to apply.

Applicants **shall have been operating** housing programs for a minimum of four years prior to the date of application. The applicant shall also have successfully performed the activity for which they are applying for a **minimum of two years** within the four years immediately

preceding the application due date as specified in the NOFA and shall have the ability to perform the requirements of the activity or activities for which they are applying pursuant to Section 102.

Recipients will be the beneficiaries on loans they originate to homebuyers/homeowners using CalHome funds; therefore, applicants must have demonstrated the capacity to manage a portfolio of homeowner loans over an extended period of time

City applicants can only propose a program within their incorporated area. County applicants can only propose a program within the unincorporated county area. Nonprofit corporations can only propose programs or projects in a county in which they have developed a project or operated a housing program within the past 4 years, or in a county for which the nonprofit corporation has an existing 523 technical assistance services agreement with the United States Department of Agriculture. Nonprofit corporations must choose only one county in which to operate a program or develop a project for each activity attachment they submit for funding.

Maximum and Minimum Application Amounts:

This is a multiple activity application. The aggregate amount of all activities applied for may not exceed the maximum application amount.

The **maximum aggregate application amount** for all activities shall not exceed five hundred thousand dollars (**\$500,000**). An exception will be made for a city expected to have a higher demand for assistance as evidenced by a population in excess of 3 million, in which case the maximum aggregate amount for all activities shall not exceed one million dollars (\$1,000,000).

The **minimum application amount** for any one activity shall not be less than one hundred thousand dollars (**\$100,000**).

Notwithstanding the maximum and minimum application amounts listed above, homeownership development project loan applicants may only apply for a maximum \$20,000 per unit in the development project and only when the units will be sold to an eligible CalHome homebuyer who will qualify for CalHome mortgage assistance. Development loan funds are to be used to assist homebuyers once the development project is complete. As an example, if a development loan project consists of 10 units to be developed for sale to first-time homebuyers the applicant may request up to \$200,000 in development loan assistance. In order to apply for the maximum loan amount of \$500,000 the homeownership development would need to produce a minimum of 25 units. In order to apply for the \$100,000 minimum the homeownership development would need to produce a minimum of 5 units.

Multiple Activity Applications:

Applicants may apply for a maximum of two of the three activities eligible under this NOFA. Applicants may submit only one activity attachment for the same activity. In no event shall the aggregate amount of both activities applied for exceed the maximum application amount.

If an application is submitted proposing an ineligible use of CalHome funds, only that portion of the application proposing eligible activities, if any, will be rated and eligible for funding.

Funding Allocation:

Projects will be rated and ranked separately from programs. Projects will receive 30% of the total funding allocation. Programs will receive 70% of the total funding allocation. If there are an insufficient number of applications that meet the funding threshold (550 points) and the entire percentage cannot be funded in either group, the balance of the funds will be used to fund eligible project or program applications in rank order, in compliance with the geographic set-aside requirements detailed below.

CalHome Loan Processing Fee/Activity Delivery Fee/Homebuyer Education Fee:

Recipients of a funding award for first-time homebuyer mortgage assistance programs may charge a CalHome loan processing fee pursuant to Section 104 (a) (3).

Recipients of a funding award for a homeownership development project may charge a CalHome loan processing fee pursuant to Section 104 (a) (3), as units are completed and funds are converted to mortgage assistance for loans to eligible homebuyers.

Recipients providing assistance where home purchase is involved are required to provide homebuyer education in pursuant to Section 115. Recipients may charge the allowable homebuyer education fee pursuant to Section 104 (a) (2).

Recipients of a funding award for owner-occupied rehabilitation programs may charge an activity delivery fee in an amount up to 5% of the funds made available for loans to homeowners pursuant to Section 104 (b) (6).

These fees will be provided from the CalHome grant to the recipient and shall not be included in the loan amount to the homebuyer/homeowner.

Eligible Uses of Funds:

Local agencies or nonprofit corporations may make:

- (1) Loans to first-time homebuyers for mortgage assistance for permanent financing of a unit ready for occupancy or a unit to be acquired and rehabilitated by the homebuyer.

A nonprofit corporation shall only make loans in new construction projects it has developed or for homes it has rehabilitated for resale to first-time homebuyers.

- (2) Loans to owner-occupants for rehabilitation. A nonprofit corporation shall only make such loans where it will be directly providing the services required in Section 109, Owner-Occupied Rehabilitation Requirements and Section 110, Construction Requirements.

HCD may make loans to local public agencies or nonprofit corporations for the development of new construction homeownership development projects by the applicant. Development projects

are only eligible if construction work has not begun prior to the date that HCD awards a commitment of program funds, including (1) site improvements intended for public dedication, (2) site preparation, or (3) grading. These loans may convert to grants, pursuant to Section 122, to be used by the recipient to make mortgage assistance loans pursuant to Section 108 and Article 3 to purchase the development units.

Recipients may charge the applicable fees for loan processing, activity delivery or homebuyer education as specified in the CalHome Program Guidelines.

Note: All assistance to homeowners shall be in the form of loans repayable to a recipient's separately maintained reuse account, which will be governed by a reuse plan approved by the HCD.

Ineligible Uses of Funds:

- (1) Administrative costs other than those allowed in Section 104 per assisted household.
- (2) Refinancing of existing loans or debt, excepting site acquisition bridge loans with a term of 36 months or less on homeownership development projects.
- (3) Costs associated with the rehabilitation of buildings or structures accessory to a manufactured home, except when required by the mobilehome park rules or necessary or integral to the rehabilitation work.
- (4) Offsite improvements (i.e., improvements outside the boundaries of the subdivision or individual parcels for scattered site development).
- (5) Unit construction costs, except in rehabilitation programs.
- (6) Loan closing costs for first-time homebuyer programs.
- (7) Acquisition of resale (previously occupied) manufactured housing units.
- (8) Substitution of CalHome fund commitments for other funding commitments. This restriction applies to the local public agency's or nonprofit corporation's overall homeowner activities, as well as on a loan-by-loan basis.

Eligibility for Homebuyer/Homeowners:

Must be low- or very low-income households whose incomes shall not exceed 80% of the county median income as defined in Section 101. The current limits are listed on the HCD website at:

www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html

Homebuyers must be first-time homebuyers as defined in the CalHome program guidelines, or
Homeowners must be owner-occupants of units that need rehabilitation, and
shall occupy units purchased or rehabilitated as their principal place of residence and not sell,
lease or rent the unit, and
shall not have previously received a loan from a Department-funded program.

Average, Maximum and Minimum Homeowners Loan Amounts Requirements:

The average amount of all homebuyer/homeowner loans funded under the application shall not exceed \$20,000. It is the recipient's responsibility to ensure that the average is not exceeded.

The maximum loan, made from grant funds, to individual homebuyers/homeowners shall not exceed thirty thousand dollars (\$30,000).

The minimum loan, made from grant funds, to individual homebuyers/homeowners shall not be less than two thousand dollars (\$5,000).

Underwriting Criteria:

Loan to first-time homebuyers shall meet the underwriting criteria specified in Section 111.

Rehabilitation loans to eligible owner-occupants shall meet the underwriting criteria specified in Section 112.

Development loans will be funded pursuant to the development loan terms specified in Section 122.

Timeframes for Use of CalHome Funds:

First-Time Homebuyer Mortgage Assistance and Owner-Occupied Rehabilitation Programs:

Successful applicants shall enter into a Standard Agreement with HCD. The term of the Standard Agreement shall be for 28 months from the date of the award letter. Recipients shall be required to meet the performance goals pursuant to Section 131 (a). Failure to meet the performance goals will result in funds being disencumbered and/or a penalty point reduction on future applications. The 28-month term includes the time involved to prepare and fully execute the Standard Agreement between HCD and the recipient.

Homeownership Development Loans:

Successful applicants shall enter into a Standard Agreement with HCD. The term of the Standard Agreement shall be for 36 months from the date of the award letter. Recipients shall be required to meet the performance goals pursuant to Section 131 (b). Failure to meet the performance goals will result in funds being disencumbered and/or a penalty point reduction on

future applications. The 36-month term includes the time involved to prepare and fully execute the Standard Agreement between HCD and the recipient.

Geographic Set-Asides:

CalHome's enabling statute requires the program to "ensure a reasonable geographic distribution" of funds. To prevent an extreme imbalance of funding (provided there are sufficient applications in each area that pass funding threshold):

- 45% of the funds shall be reserved for programs in Southern California
- 35% of the funds shall be reserved for programs in Northern California
- 10% of the funds shall be reserved for programs in rural areas

If there is an insufficient number of eligible applications in either the southern, northern or rural areas and the entire amount of any percentage set-aside is not used, the balance of the set-aside and the remaining funds not assigned to a set-aside will be used to fund eligible applications in any area of the State based on highest ranking order.

For the purposes of these set-asides, Southern California includes the counties of San Luis Obispo, Kern, San Bernardino, and all counties to the South. Northern California includes all other counties of the State. "Rural" is defined in Section 50199.21 of the Health and Safety Code.

Important Legal Matters:

HCD reserves the right, at its sole discretion, to suspend or amend the provisions of this NOFA. If such an action occurs, HCD will notify all interested parties. This NOFA is subject to the provisions of the CalHome Program Guidelines adopted on November 2, 2000. Applicants are urged to carefully review the guidelines before submitting an application.

Application Procedures:

The CalHome application will not be considered for funding unless the applicant demonstrates the following minimum requirements.

- (1) the applicant is eligible;
- (2) the activities are eligible;
- (3) the proposed use of funds is eligible;
- (4) the application was received on time;
- (5) the application is complete; and
- (6) the application has not been altered or modified except to accommodate computer software.

Evaluation Criteria:

Applications will be rated and ranked based on criteria established in the Program Guidelines. The maximum number of points an application may receive under this NOFA is 1000. To be eligible for funding an application must receive a minimum of 550 points.

Program activities will be rated separately from homeownership development projects.

When the application requests funds for two program activities, the combined prorata points received for the two program activities will determine the number of points the application will receive, the prorata points must total the minimum 550 points for the program application to be eligible for funding. Both of the activities will either be funded or not be funded when compared to the other applications scores.

Applications will be rated, ranked and funded based on an application’s score relative to all other applications. The highest scoring applications will be funded in compliance with the geographic set-aside requirements detailed above.

In the case of a tie score, the application for an area demonstrating the highest poverty level will be funded first in compliance with the geographic set-aside requirements detailed above. Funding decisions will be made by the Deputy Director of Community Affairs. The decision of the Deputy Director is final.

| <u>Criteria</u> | <u>Maximum Points</u> |
|--|-----------------------|
| Capability to operate the program or develop the project by demonstrating prior experience with administration of the program activity proposed or in developing the type of homeownership development project as proposed and prior experience with loan servicing or a plan to provide loan servicing/management capabilities. | 400 |
| Community need in the geographic area of the proposed program or project based on overpayment for home purchase programs/projects and poverty level for existing owner programs as reflected in the U.S. Census data. | 150 |
| Feasibility of the proposed program activity as demonstrated by the extent to which the proposed program is responding to a community need <u>or</u> for applicants proposing a homeownership development project, readiness of the project, and ability of the project to serve low- and very low-income households. | 250 |
| Contributes to community revitalization by operating a program located in a federally defined Qualified Census Tract or in a designated redevelopment area under the jurisdiction of the local Redevelopment Agency. | 100 |

Extent to which contributed labor is utilized in homeownership projects, or a mortgage assistance program for new construction or acquisition with rehabilitation when the recipient is acquiring and rehabilitating properties for sale to first-time homebuyers. A minimum of 500 hours of onsite contributed construction labor per assisted unit must be provided. Points will be awarded comparatively, based on the number of contributed construction labor hours guaranteed, with additional weight given to the amount of contributed labor being provided by the homebuyer.

100

Application Submission:

Application must be made on the forms provided by HCD. Applicants may submit only **one** application in response to this NOFA. Application forms must not be modified. **HCD must receive one original complete application no later than 5:00 p.m. on February 8, 2001.** No facsimiles, incomplete applications, or application revisions will be accepted prior to or after the application deadline. Applications must meet all eligibility requirements upon submission. Applications having material internal inconsistencies will not be rated and ranked.

Applications will be available at the application workshops. Applications will also be available at HCD's website no later than November 17, 2000, or you may contact program staff at (916) 327-3646. Applications must be delivered to one of the following addresses:

U.S. Mail

Department of Housing and
Community Development
CalHome Program
Division of Community Affairs
P.O. Box 952054
Sacramento, CA 94252-2054

Private Courier

Department of Housing and
Community Development
CalHome Program
Division of Community Affairs
1800 Third Street, Room 390
Sacramento, CA 95814

It is the applicant's responsibility to ensure that the application is clear, complete and accurate. After the application deadline, CalHome staff may request clarifying information provided that such information does not affect the competitive rating of the application. No information will be solicited or accepted if this information would result in a competitive advantage to the applicant. No applicant may appeal HCD staff's evaluation of another applicant's application.

Application Workshops:

Potential applicants are invited and encouraged to attend the CalHome 2000 Application Training Workshops. Workshops will be held in late November/early December. Space at these workshops is limited and will be reserved for registered potential applicants.

Information and Assistance:

Staff is available to answer questions regarding the program or the preparation and submittal of the application. Please call the CalHome program staff at (916) 327-3646.