



REPORT

DATE ISSUED: April 28, 2016

REPORT NO: HCR16-038

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of May 6, 2016

SUBJECT: First-Time Homebuyer Assistance Award of Funding for COMM22 For-Sale Housing

COUNCIL DISTRICT: 8

REQUESTED ACTION

Recommend the Housing Authority of the City of San Diego approve financing for 11 first-time homebuyer loans each in an amount up to \$70,000 for the proposed COMM22 For-Sale Housing, located in the Logan Heights community, which will remain affordable for 30 years.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) recommend that the Housing Authority of the City of San Diego (Housing Authority) take the following actions, as described in this report:

- 1) Approve Housing Commission first-time homebuyer assistance for 11 homebuyers in the form of 3 percent interest, deferred-payment loans of up to \$70,000 per loan with a total project investment not to exceed \$770,000;
- 2) Approve a funding commitment of up to \$770,000 in U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnerships Program funds;
- 3) Approve a minimum buyer cash investment of \$3,000 per unit to be used toward closing costs;
- 4) Authorize the President and Chief Executive Officer (President & CEO), or designee, to reinvest original principal balance loan proceeds, upon future sale of any given unit, pursuant to this staff report and Housing Commission First-Time Homebuyer Program guidelines in effect at the time of sale;
- 5) Authorize the President & CEO, or designee, to:
 - a. Execute any and all documents necessary to effectuate the transaction and implement the project in a form approved by General Counsel, and to take such actions as are necessary, convenient and/or appropriate to implement the approvals upon advice of General Counsel; and
 - b. Substitute approved funding sources with any other available funds as deemed appropriate, and contingent upon budget availability, and further authorize the President & CEO, or designee, to take such actions as are necessary, convenient and/or

April 28, 2016

First-Time Homebuyer Assistance Award of Funding for COMM22 For-Sale Housing

Page 2

appropriate to implement this approval and delegation of authority by the Housing Commission upon advice of General Counsel.

SUMMARY

The Proposed Project

The COMM22 For-Sale Housing is a proposed 11-unit new construction affordable for-sale urban infill development to be located on the 2200 block of Commercial Street. The project will be composed of three 1,248 square-foot townhomes (3 bedrooms, 2 ½ bathrooms); five 1,292 square-foot townhomes (3 bedrooms, 2 ½ bathrooms); and three 1,360 square-foot townhomes (4 bedrooms, 2 ½ bathrooms) built for families earning less than 80 percent of San Diego's Area Median Income (AMI approximately \$64,800 for a family of four). Each home will have a private outdoor space, garage, and energy-efficient features, such as Energy Star appliances, low-flow plumbing fixtures, and drought-tolerant landscaping.

The for-sale townhomes are a component of a multi-phase plan to construct a transit-oriented mixed-use development near the trolley stop at 25th and Commercial streets. Immediately adjacent to the proposed for-sale development is Paseo at COMM22, 128 affordable multifamily rental units for families and two managers' units, and Victoria at COMM22, 69 affordable multifamily housing rental units for seniors and one manager's unit. The Housing Commission participated as a public lender and authorized the issuance of State multifamily housing revenue bonds, approved by the Housing Authority, on both Paseo at COMM22 and Victoria at COMM22.

The Developer - Habitat for Humanity

Habitat for Humanity is a nonprofit housing organization composed of more than 1,500 local U.S. affiliates working in more than 70 countries with a mission of "bringing people together to build homes communities and hope."

Habitat for Humanity has helped build and repair more than 1 million homes, and has served more than 6.8 million people worldwide since its inception in 1976. The local affiliate, San Diego Habitat for Humanity (SDHFH), founded in 1988, has built, rehabilitated or repaired 285 homes throughout San Diego County, serving more than 1,000 adults and children with assistance from more than 175,000 volunteers.

SDHFH utilizes loan payments, proceeds from Habitat for Humanity's discount home improvement center, and donations to build and repair homes. Families who work with SDHFH help build their own homes alongside volunteers.

Families who participate in the Habitat for Humanity program stay in their home an average of 25 years. The program success can be attributed to the hours each adult borrower contributes to build their home, the financial education classes families attend to prepare for long-term success, and the monthly mortgage payment amounts, which are based on the family's income.

Selecting the Partner Family (Borrower)

Prior to construction, partner families will be prequalified by SDHFH for homeownership based on income, credit and demonstrated need. The family must earn a minimum of 50 percent of AMI, and cannot exceed 80 percent AMI. The family's income is factored into the financing structure at the beginning of the process, and they will be requalified prior to closing to ensure they remain eligible. If

April 28, 2016

First-Time Homebuyer Assistance Award of Funding for COMM22 For-Sale Housing

Page 3

the family's income is close to the maximum amount allowed under the program guidelines, SDHFH will work with them to ensure they understand the limits and remain qualified throughout the process. Partner families sign a Sweat Equity Agreement committing to 250 hours in "sweat equity" per adult borrower. "Sweat Equity" is the family's contribution of labor in the construction of their future home. The 250 hours are required to be contributed before the family can move into their home and can be satisfied by working on their own home, on the construction site of another Habitat for Humanity home, at the Habitat for Humanity ReStore, or by working on other SDHFH projects. In addition, each family is required to contribute a minimum cash investment of \$3,000, to be used toward the transaction closing costs.

Partner Family Financing

Upon completion, the units will be sold to the partner families at fair market value. SDHFH finances the first trust deed mortgage at zero percent interest. The loan is determined based on the supportable mortgage, which will not exceed 33 percent of the family's household income. In addition, each family will receive \$15,000 in assistance from the Federal Home Loan Bank through its Workforce Initiative Subsidy for Homeownership (WISH) Program. The WISH assistance is forgiven over a five-year period and will be used toward the down payment. Based on the projected fair market value, it is anticipated there will still be a gap in financing. The Housing Commission proposes to help fill the gap by providing up to \$70,000 in the form of a deferred-payment loan to the individual buyers. The Housing Commission financing will carry the same 3 percent simple interest rate and repayment terms as the existing First-Time Homebuyer Program. The loan is fully deferred, with no payments of principal, or interest required, until the unit is sold, non-owner occupied, or the end of the 30-year term. A complete buyer application package will be submitted by SDHFH to the Housing Commission for underwriting and eligibility review by staff. With the exception of staff recommendations one (1) and three (3) described above, the Housing Commission will process the application through existing processes, procedures, and guidelines. Should a gap remain after the first mortgage, the WISH assistance, and the Housing Commission deferred-payment loan, SDHFH will fund an additional deferred-payment loan, which will be subordinate to the Housing Commission financing.

SDHFH will record a 30-year deed restriction against each property, including first right of refusal to repurchase the unit to ensure the units remain affordable. Should units be sold during the affordability term, the Housing Commission will reinvest principal repayments of up to \$70,000 per unit to future borrowers.

As noted above, families must have a household income between 50 percent and 80 percent of AMI. SDHFH uses a conservative average 60 percent of AMI in the financing pro forma. The following table demonstrates a proposed financing pro forma at 60 percent, 65 percent and 70 percent of AMI.

	3 Bedroom			4 Bedroom		
<u>Income Assumptions</u>						
Income Level	60%	65%	70%	60%	65%	70%
Assumed Family Size	4	4	4	5	5	5
2015 Area Median Income (HUD)	\$ 48,600	\$ 52,650	\$ 56,700	\$ 52,500	\$ 56,850	\$ 61,250
Income Allocation to Housing	33%	33%	33%	33%	33%	33%
Amount Available for Housing Annually	\$ 16,038	\$ 17,375	\$ 18,711	\$ 17,325	\$ 18,761	\$ 20,213
Amount Available for Housing Monthly	\$ 1,337	\$ 1,448	\$ 1,559	\$ 1,444	\$ 1,563	\$ 1,684

April 28, 2016

First-Time Homebuyer Assistance Award of Funding for COMM22 For-Sale Housing

Page 4

	3 Bedroom			4 Bedroom		
<u>Monthly Payment Assumptions</u>						
Income Level	60%	65%	70%	60%	65%	70%
Homeowners Association Dues	\$ 225	\$ 225	\$ 225	\$ 225	\$ 225	\$ 225
Homeowners Insurance	\$ 45	\$ 45	\$ 45	\$ 45	\$ 45	\$ 45
Utilities	\$ 205	\$ 205	\$ 205	\$ 261	\$ 261	\$ 261
Property Taxes	\$ 250	\$ 250	\$ 250	\$ 266	\$ 266	\$ 266
First Mortgage	\$ 612	\$ 723	\$ 834	\$ 647	\$ 767	\$ 888
Total Monthly Payment	\$ 1,337	\$ 1,448	\$ 1,559	\$ 1,444	\$ 1,563	\$ 1,684
Supportable Mortgage (0% interest)	\$ 220,140	\$ 260,235	\$ 300,330	\$ 232,950	\$ 276,015	\$ 319,575
<u>Financing Assumptions</u>						
Estimate Fair Market Value Sales Price	\$ 310,000	\$ 310,000	\$ 310,000	\$ 325,000	\$ 325,000	\$ 325,000
SDHFH Funded 1st Mortgage @ 0%	\$ 220,140	\$ 260,235	\$ 295,000	\$ 232,950	\$ 276,015	\$ 310,000
WISH Down Payment Assistance	\$ 15,000	\$ 15,000	\$ 9,670	\$ 15,000	\$ 15,000	\$ 5,425
SDHC Deferred Loan	\$ 70,000	\$ 34,765	\$ -	\$ 70,000	\$ 33,985	\$ -
Gap - Silent Mortgage from SDHFH	\$ 4,860	\$ -	\$ -	\$ 7,050	\$ -	\$ -

Unit Phasing

The 11 units will be built in three phases with phase one construction scheduled to begin in September 2016. Construction on all three phases is expected to be completed by May 2019. The Housing Commission's financing is proposed to be allocated in fiscal years 2018 (July 1, 2017 – June 30, 2018) and 2019 (July 1, 2018 – June 30, 2019) as follows:

Sale Phasing Schedule

	3 Bedroom		4 Bedroom		Total	
November 2017 (FY18)	3	\$ 210,000	1	\$ 70,000	4	\$ 280,000
August 2018 (FY19)	3	\$ 210,000	1	\$ 70,000	4	\$ 280,000
March 2019 (FY19)	2	\$ 140,000	1	\$ 70,000	3	\$ 210,000
	8 Units	\$ 560,000	3 Units	\$ 210,000	11 Units	\$ 770,000

AFFORDABLE HOUSING IMPACT

The 11 units will be subject to 30-year deed restrictions recorded on behalf of SDHFH. The restrictions include their first right of refusal to repurchase the unit at an affordable price. SDHFH is responsible for ensuring compliance with their restrictions. In addition, the borrowers will be subject to the terms of the Housing Commission's Deferred Loan Promissory Note and Deed of Trust, which require the property to be owner-occupied during the term of the loan. The completion of the COMM22 For-Sale Housing will result in 11 for-sale units in the City of San Diego affordable to families earning up to 80 percent of AMI.

FISCAL CONSIDERATIONS

Staff recommends approval of a funding commitment for the project of up to \$770,000 with disbursements expected to begin in fiscal year 2018.

Funding sources approved by this action will be:

HUD HOME Investment Partnership Program funds – up to \$770,000

April 28, 2016

First-Time Homebuyer Assistance Award of Funding for COMM22 For-Sale Housing

Page 5

Funding uses approved by this action are anticipated to be disbursed as follows:

Fiscal Year 2018	\$	280,000
Fiscal Year 2019	\$	490,000
Total	\$	770,000

Approving this action will further grant the President & CEO, or designee, the authority to substitute the above funding sources with other available funding sources so long as the Housing Commission assistance amount does not exceed the approved \$770,000 total project investment, should the operational need arise or should such actions be to the benefit of the Housing Commission. Should this occur, funding substitutions will be memorialized in an Informational Report at the next scheduled Housing Commission Board meeting.

ENVIRONMENTAL REVIEW

This activity is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Section 15378(b)(4), as it is a government fiscal activity which would not result in any potentially significant physical impacts on the environment . The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination is not required. In addition, activities to assist homebuyers purchase existing dwelling units are categorically excluded under the National Environmental Policy Act pursuant to Part 58.35(b)(5) of Title 24 of the Code of Federal Regulations.

Respectfully submitted,

Carrie Tapia

Carrie Tapia
Senior Program Analyst
Real Estate Division

Approved by,

Deborah N. Ruane

Deborah N. Ruane
Senior Vice President
Real Estate Division

Hard copies are available for review during business hours at the security information desk in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials on the San Diego Housing Commission website at www.sdhc.org.