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# San Diego Housing Commission (SDHC) Proposed Policy Amendments Regarding the City of San Diego First-Time Homebuyer (FTHB) Program Housing Authority of the City of San Diego Agenda Item #1 October 31, 2023

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# SDHC – Proposed Policy Amendments Regarding the FTHB Program

## Introduction

- SDHC has operated an FTHB Program since 1992 to help low- and moderate-income households achieve homeownership.
  - More than \$195.7 million in assistance provided (loans, grants and mortgage credit certificates)
  - More than 6,010 homebuyers assisted
- Current Program
  - **Deferred-Payment, Second Trust Deed Loan**
    - Buyer's Down Payment: 3 percent of the purchase price
    - Loan Amount: Up to 22 percent of the purchase price
    - Interest Rate: 3 percent simple interest
    - Deferred for 30 years, no monthly payments
  - **Closing Costs Assistance Grant**
    - 4% of the purchase price up to \$10,000
- Housing Authority of the City of San Diego has delegated authority to the SDHC Board of Commissioners to make revisions to the FTHB program (Resolution HA-1314).



# SDHC – Proposed Policy Amendments Regarding the FTHB Program Current Market Conditions

- June 2023:
  - Single-family home median price in San Diego: \$958,250
    - 123 percent increase over the last 20 years
    - 38 percent increase from the same time in 2020

*Source: California Association of Realtors, Zillow*
- In the past year, 30-year mortgage interest rates have climbed from 3 percent to 7 percent, reaching a 20-year high, according to a recent Redfin report.
- The extraordinarily high price of homes, rising interest rates, limited inventory, and other real estate market conditions have made it extremely competitive and very difficult for first-time homebuyers to purchase a home in San Diego.



# SDHC – Proposed Policy Amendments Regarding the FTHB Program Example

- Homebuyer with low income purchased a house in Paradise Hills in July 2020.

	July 2020	Needed to Buy House Today*
<b>Sales Price</b>	\$460,000	\$689,000
<b>First Mortgage Loan</b>	\$368,000	\$516,750
<b>First Mortgage Loan Interest Rate</b>	3.875%	7%
<b>SDHC FTHB Loan</b>	\$78,200 (17% of sales price)	\$151,580 (22% of sales price)
<b>SDHC Closing Costs Grant</b>	\$10,000	\$10,000
<b>Homebuyer's Down Payment</b>	\$13,800 (3% of sales price)	\$20,670 (3% of sales price)
<b>Monthly Income</b>	\$5,448 (57% of Area Median Income)	\$9,500 (76% of Area Median Income)
<b>Monthly Mortgage Payment</b>	\$2,259	\$4,254
<b>Debt-to-Income Ratio</b>	44.09%	44.77%

*\*Estimated values*



# SDHC – Proposed Policy Amendments Regarding the FTHB Program Research

- SDHC engaged Urban Institute (UI), a leading national research firm, in 2021 to conduct a Homeownership study.
  - Study recommendations included reexamining eligibility criteria and program design.
- SDHC staff research:
  - Surveyed loan officers participating in SDHC's FTHB program to identify challenges low-income buyers face in the current challenging market.
  - Researched FTHB programs in similarly sized California cities, such as Los Angeles and San Francisco.
- Major barriers to achieving homeownership identified:
  - Lack of sufficient down payment
  - High debt-to-income ratios



# SDHC – Proposed Policy Amendments Regarding the FTHB Program Program Enhancements

- 2021
  - Issuing pre-approvals
  - Guaranteeing a 30-day closing
- 2022
  - Increasing down payment loan amount from up 17% to up 22% of the purchase price.
  - Conducting extensive outreach
    - First-time homebuyer community workshops
    - Social media
    - Expanding the list of participating lenders
    - Providing communication resources to Mayor’s office, Councilmembers’ offices, SDHC Commissioners and community organizations
      - 30-second video in English and Spanish
      - Flyers in English and Spanish



# SDHC – Proposed Policy Amendments Regarding the FTHB Program SDHC Board of Commissioners Action

- September 15, 2023: SDHC Board of Commissioners approved three modifications to the City of San Diego First-Time Homebuyer Program's Deferred Loan Program, pursuant to authority delegated in Housing Authority Resolution No. HA-1314:
  - a. Change the minimum required buyer down payment from 3 percent of the purchase price to a minimum of 1 percent of the purchase price.
  - b. Increase the maximum Debt-to-Income Ratio from 45 percent to up to 50 percent.
  - c. Increase the Housing Commission's First-Time Homebuyer deferred loan assistance from up to 22% to up to 25% of the purchase price of the property.
- San Diego Municipal Code 98.0301(d)(8)(D) requires Housing Authority action to adopt or amend SDHC policy.



# SDHC – Proposed Policy Amendments

## Regarding the FTHB Program

### Revisions – Example

- Two-person household with an annual income of \$88,200 (80% of Area Median Income):

	Current Program 22% Deferred Loan 3% buyer down payment Max 45 percent debt-to-income ratio	Proposed Program 25% Deferred Loan 1% buyer down payment Max 50 percent debt-to-income ratio
<b>Purchase Price</b>	\$554,000	\$625,000
<b>SDHC Deferred Loan</b>	-\$121,880	-\$156,250
<b>Buyer's Down Payment</b>	-\$16,620	-\$6,250
<b>1st Loan Amount</b>	\$415,500	\$462,500
<b>Interest Rate</b>	6.5%	6.5%
<b>Term</b>	30	30
<b>P&amp;I Payment</b>	\$2,626.24	\$2,923.31
<b>Property Taxes</b>	\$577.08	\$651.04
<b>Hazard Insurance</b>	\$100.00	\$100.00
<b>Total Housing Payment</b>	\$3,303.33	\$3,674.36
<b>Debt-To-Income Ratio</b>	44.94%	49.99%

- Increase in SDHC down payment loan amount, a higher debt-to-income ratio and lower down payment increases the buyer's purchasing power by \$71,000.





# SDHC – Proposed Policy Amendments Regarding the FTHB Program Staff Recommendations

**That the Housing Authority of the City of San Diego (Housing Authority) take the following actions:**

- 1) Approve the proposed amendments to SDHC Policy PO-LM-600.101 Housing Program Lending Authority, as described in this report and shown in Attachment 2, to revise the policy to reflect program updates to address current housing market conditions and continue to assist individuals and families in purchasing their first home.
- 2) Authorize SDHC's President & CEO, or designee, to execute the approved amended policy PO-LM-600.101 Housing Program Lending Authority, in a form and format approved by General Counsel, and to take such actions necessary and appropriate to implement these approvals. SDHC staff will notify the Housing Authority and the City Attorney's Office about any subsequent amendments or modifications to the documents, and other required documents, including amendments to any documents.



# SDHC – Proposed Policy Amendments Regarding the FTHB Program

## Questions & Comments

