



EXECUTIVE SUMMARY

MEETING DATE: September 15, 2023

HCR23-092

SUBJECT: Proposed Revisions to the City of San Diego First-Time Homebuyer Program

COUNCIL DISTRICT: Citywide

ORIGINATING DEPARTMENT: Real Estate

CONTACT/PHONE NUMBER: Sujata Raman (619) 578-7406

REQUESTED ACTION:

Authorize the proposed revisions to the City of San Diego First-Time Homebuyer Program as detailed in this report.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The San Diego Housing Commission (Housing Commission) has operated a First-Time Homebuyer Program for the City of San Diego since 1992 to help low- and moderate-income San Diegans achieve homeownership.
- Since the program's inception, the Housing Commission has provided assistance totaling more than \$195.7 million to help more than 6,010 homebuyers with low-to-moderate income purchase their first home in the City of San Diego.
- Over the years, Housing Commission staff has continuously monitored the program and responded to market changes to ensure the program continues to serve the target population effectively.
- Housing Authority Resolution HA-1314 authorizes the Housing Commission Board of Commissioners to make revisions to the program.
- The current program provides a deferred down-payment loan of up to 22 percent of the purchase price, with the borrower contributing 3 percent of their own funds toward the down payment. The borrower's total debt-to-income ratio, including the proposed housing payment plus their debts, cannot exceed 45 percent of their gross monthly income.
- A California Association of Realtors report shows over the last 20 years, the median sales price in San Diego increased from \$430,473 as of July 2003 to \$958,250 as of June 2023, an increase of 123 percent.
- Also, in the past one 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 historically high home values coupled with the more than doubling of interest rates have priced low-income buyers out of the market.
- To continue to assist individuals and families in purchasing their first home, staff recommends modifying Housing Program Lending Policy 600.101 as it relates to the First-Time Homebuyer program as follows:
 - 1) Change the Maximum Combined Loan-to-Value Ratio from 97 percent to up to 99 percent. This change will effectively reduce the minimum required buyer down payment from 3 percent of the purchase price to 1 percent of the purchase price.
 - 2) Increase the maximum Debt-to-Income Ratio from 45 percent to up to 50 percent.
 - 3) Increase the Housing Commission's First-Time Homebuyer loan assistance from up to 22% to up to 25% of the purchase price of the property based on need of the homebuyer.
- The staff-recommended actions will not change the Housing Authority-approved Fiscal Year 2024 budget for the First-Time Homebuyer Program the Housing Commission administers.



REPORT

DATE ISSUED: September 7, 2023

REPORT NO: HCR23-092

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of September 15, 2023

SUBJECT: Proposed Revisions to the City of San Diego First-Time Homebuyer Program

COUNCIL DISTRICT: Citywide

REQUESTED ACTION

Authorize the proposed revisions to the City of San Diego First-Time Homebuyer Program as detailed in this report.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) Board of Commissioners (Board) take the following actions and recommend that the Housing Authority of the City of San Diego (Housing Authority) take the following actions:

Housing Commission Board

- 1) Approve three modifications to the City of San Diego First-Time Homebuyer Program's Deferred Loan Program:
 - 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.
- 2) Authorize the President and Chief Executive Officer (President & CEO), or designee, to execute all documents and instruments that are necessary and/or appropriate to implement these approvals, in a form and format approved by General Counsel, and to take such actions necessary and/or appropriate to implement these approvals, provided that a copy of the documents, signed as to form by General Counsel, is submitted to each Housing Commissioner.

Housing Authority

- 1) Approve the proposed amendments to the Housing Commission 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 the Housing Commission'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. Housing Commission 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.

SUMMARY

The Housing Commission has operated a First-Time Homebuyer Program for the City of San Diego since 1992 to help low- and moderate-income San Diegans achieve homeownership. Since the program's inception, the Housing Commission has provided assistance totaling more than \$195.7 million to help more than 6,010 homebuyers with low-to-moderate income purchase their first home in the City of San Diego. Over the years, Housing Commission staff has continuously monitored the program and responded to market changes to ensure the program continues to serve the target population effectively. On August 8, 2006, the Housing Authority of the City of San Diego (Housing Authority) delegated authority to the Housing Commission Board of Commissioners to make future revisions to the First-Time Homebuyer Program (Resolution No. HA-1314; Report No. HCR06-021).

The current program provides a deferred down-payment loan of up to 22 percent of the purchase price, with the borrower contributing 3 percent of their own funds toward the down payment. The borrower's total debt-to-income ratio, including the proposed housing payment plus their debts, cannot exceed 45 percent of their gross monthly income.

In 2021, the Housing Commission engaged Urban Institute (UI), a leading national research firm, to conduct a study to explore the feasibility of increasing opportunities for Middle-Income and Black homebuyers under the First-Time Homebuyer program. One of the recommendations in UI's 2022 report was to reexamine eligibility criteria and program design. UI's study cited insufficient funds for a down payment as the biggest barrier to accessing homeownership. About 68 percent of the survey participants said a down payment was the major barrier to owning a home, and 66 percent said they face difficulty saving for a down payment. UI's study of mortgage denial rates shows 35.3 percent of applications are denied for debt-to-income ratio.

Additionally, the Housing Commission surveyed the loan officers currently participating in the First-Time Homebuyer program to identify challenges low-income buyers experience in the current housing market and what Housing Commission guidelines create the biggest barriers for households who may otherwise qualify for assistance. Fifty-four percent of respondents cited debt-to-income ratio and/or down payment as the biggest barriers low-income buyers experience.

A California Association of Realtors report shows over the last 20 years, the median sales price in San Diego increased from \$430,473 as of July 2003 to \$958,250 as of June 2023, an increase of 123 percent. Also, in the past one 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 historically high home values coupled with the more than doubling of interest rates have priced low-income buyers out of the market.

In its report, UI cited that several other housing organizations have altered their eligibility criteria, including changes to the maximum debt-to-income ratio and reduced minimum borrower contribution. Two major metropolitan cities in California, San Francisco and Los Angeles, offer first-time homebuyer programs with a minimum of 1 percent of the home purchase price as down payment from the buyer.

Additionally, the California Housing Finance Agency (CalHFA) offers various programs that allow a 50 percent debt-to-income with as little as 0 percent down payment from the buyer.

To continue to assist individuals and families in purchasing their first home, staff recommends modifying Housing Program Lending Policy 600.101 as it relates to the First-Time Homebuyer program as follows:

- 1) Change the Maximum Combined Loan-to-Value Ratio from 97 percent to up to 99 percent. This change will effectively reduce the minimum required buyer down payment from 3 percent of the purchase price to 1 percent of the purchase price.
- 2) Increase the maximum Debt-to-Income Ratio from 45 percent to up to 50 percent.
- 3) Increase the Housing Commission's First-Time Homebuyer loan assistance from up to 22% to up to 25% of the purchase price of the property based on need of the homebuyer.

These recommended changes are consistent with previous actions the Housing Commission has taken in response to changing market conditions.

Below is an example of how the recommended changes affect the purchase price and down payment for a household of two with an annual income of \$88,200 which is 80 percent of San Diego's Area Median Income for this household size. In this example, the buyer's down payment is reduced from \$16,250 to \$6,250 and their purchasing power increases by \$71,000.

	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
Purchase Price	\$554,000	\$625,000
SDHC Deferred Loan	-\$121,880	-\$156,250
Buyer's Down Payment	-\$16,620	-\$6,250
1st Loan Amount	\$415,500	\$462,500
Interest Rate	6.5%	6.5%
Term	30	30
P&I Payment	\$2,626.24	\$2,923.31
Property Taxes	\$577.08	\$651.04
Hazard Insurance	\$100.00	\$100.00
Total Housing Payment	\$3,303.33	\$3,674.36
Debt-To-Income Ratio	44.94%	49.99%

FISCAL CONSIDERATIONS:

The staff-recommended actions will not change the Housing Authority-approved Fiscal Year 2024 budget for the City of San Diego First-Time Homebuyer Program that the Housing Commission administers.

HOUSING COMMISSION STRATEGIC PLAN

This item relates to Strategic Priority No. 1 in the Housing Commission Strategic Plan for Fiscal Year 2022-2024: Increasing and Preserving Housing Solutions.

EQUAL OPPORTUNITY CONTRACTING AND EQUITY ASSURANCE

The Housing Commission will continue to ensure the First Time Homebuyer Program is implemented equitably and in accordance with The U.S. Department of Housing and Urban Development (HUD) guidelines.

PREVIOUS COUNCIL and/or COMMITTEE ACTION

Previous Council and/or Committee Actions are detailed in Attachment 1.

ENVIRONMENTAL REVIEW:

This activity is not a project pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. This action seeks to authorize a change in subsidy under the First-Time Homebuyer Program, which will not cause a significant environmental impact on its own accord. As such, this activity is not subject to CEQA pursuant to CEQA guidelines Section 15060(c)(3) and is not appealable. Processing under the National Environmental Policy Act is not required as no federal funds are involved in the action to authorize a change in subsidy under the First-Time Homebuyer Program. The provision of any federal funds for any loans as the result of this action is conditioned on the City of San Diego's final NEPA review and approval for each of the loans/properties.

Respectfully submitted,

Sujata Raman

Sujata Raman
Vice President, Single-family Housing Finance
Real Estate Division

Approved by,

Jeff Davis

Jeff Davis
Deputy Chief Executive Officer
San Diego Housing Commission

Attachments:

- 1) Previous Actions and Timeline
- 2) Housing Commission Policy PO-LM-600.101 Housing Program Lending Authority Strikethrough

Hard copies are available for review during business hours at the information desk in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101. Docket materials are also available in the "Governance & Legislative Affairs" section of the San Diego Housing Commission website at www.sdhc.org.

ATTACHMENT 1

PREVIOUS COUNCIL and/or COMMITTEE ACTION / FIRST-TIME HOMEBUYER PROGRAM TIMELINE

- April 6, 1992 (HCR92-093) Silent second trust deed loans were created under a Home Buyer's Program to help low-income households (80 percent or less of San Diego's Area Median Income [AMI]) qualify for homeownership using federal HOME Investment Partnerships Program (HOME) funds. No payments were required until the loan became due. The amount of the loan represented the difference between the market rate loan that the buyer qualified for, plus the buyer's down payment, and the appraised value of the home. The silent second trust deed loan could not exceed \$20,000. Continued affordability would be ensured for 15 years for existing homes and for 20 years for new homes. Forgiveness of the loan would occur after 15 or 20 years, whichever was applicable. (No loans were funded under this program description.)
- June 15, 1992 (HCR92-173) Shared appreciation loans for buyers earning 80 percent or less of AMI was approved using City of San Diego Housing Trust Funds. The maximum loan amount was \$25,000. The silent second loan was at zero interest, but the mortgage principal increased as the value of the home increased. When the buyer sold the home, the principal of the loan was to be computed based on the sales price. (No loans were funded under this program description.)

A Recoverable Grant Program was developed to assist buyers with income up to 100 percent of AMI using City of San Diego Housing Trust Funds. Grant amounts were limited to 2 percent of the purchase price up to \$5,000. The grant would be recovered if the family sold the home within six years.

- July 20, 1992 (HCR92-196) Shared equity component was added to the terms of the silent second trust deed loan program. The buyer's share of the equity started out at 20 percent in year one, with 80 percent to the Housing Commission. Beginning in year two, the buyer's equity increased, as the Housing Commission's decreased, by 1 percent per year. (No loans were funded under this program description.)
- February 22, 1993 (HCR93-044) Shared equity provision was amended to a 50 percent to 50 percent split. The buyer's equity share increased every year to benefit the homeowner. In addition, the shared equity provision was forgiven if the homebuyer occupied the residence for 15 years. The maximum loan amount was 20 percent of the purchase price or \$25,000, whichever was less.

- June 1, 2001 (Housing Commission Board Action) and July 17, 2001 (Housing Authority Action) Report No. HCR01-052; Resolution No. HA-1115: Shared equity loan amount was increased to 25 percent of the purchase price or \$40,000, whichever was less.

Down Payment Assistance Grants were increased to the lesser of \$5,000 or 4 percent of the purchase price.

- November 15, 2002 (Housing Commission Board Action) and November 29, 2002 (Housing Authority Action) Report No. HCR02-097; Resolution No. HA-1175: Shared equity loan amount was amended to 25 percent of the purchase price. A specific dollar amount was eliminated.

Down Payment/Closing Cost Assistance Grant was increased to the lesser of \$7,500 or 4 percent of the purchase price.

- May 14, 2004 (Housing Commission Board Action) and June 15, 2004 (Housing Authority Action) Report No. HCR04-040; Resolution No. HA-1240: Shared equity loan program was created to assist tenants affected by condominium conversions. The loan terms for buyers with income at or below 80 percent of AMI mirrored the existing silent second loan program. A new program was added to assist buyers with income up to 100 percent of AMI with the loan not to exceed \$15,000.
- May 6, 2005 (Housing Commission Board Action) and May 10, 2005 (Housing Authority Action) Report No. HCR05-034; Resolution No. HA-1269: Shared Equity Loan Program and Condominium Conversion 80 Percent AMI Loan Program were revised to a 30-year shared appreciation loan program.

The down payment/closing cost assistance grant was modified into a two-tiered program: a) for households with income at or below 100 of AMI, the lesser of \$10,000 or 4 percent of the purchase price; and b) for household with income at or below 80 percent of AMI, the lesser of \$15,000 or 6 percent of the purchase price. During the SDHC Board meeting, the Chair requested the guidelines be revised to cap the loan origination fee at 1.5 points.

- March 3, 2006 (Housing Commission Board Action) and August 8, 2006 (Housing Authority Action) Report No. HCR06-021; Resolution No. HA-1314: A two-tiered, 3 percent interest, deferred-payment loan program was created to assist buyers purchasing affordability-restricted units. The first tier assists buyers earning 80 percent or less of AMI with a second trust deed loan not to exceed 25 percent of the purchase price. The second tier helps buyers earning up to 100 percent of AMI with a second trust deed loan up to 15 percent of the purchase price. In addition, the Condominium Conversion 100 Percent AMI Loan Program was revised to a maximum loan amount of 15 percent of the purchase price and the shared appreciation provision was extended to 30 years.

- August 8, 2006 (Resolution No. HA-1314; Report No. HCR06-021) Housing Authority delegated authority to Housing Commission Board to make future revisions to the First-Time Homebuyer Programs.
- July 9, 2008 (HCR08-065) Loan terms were modified from shared appreciation to a 3% interest, deferred-payment loan.
- March 20, 2009 (HCR09-030) Workshop - Neighborhood Stabilization Program First-Time Homebuyer Program. Direction was given to amend citywide first-time homebuyer loan terms from 3 percent interest, deferred payments to shared appreciation and reduce loan amount from 25 percent to 17 percent of the purchase price.
- September 16, 2011 (HCR11-113) Housing Commission Board approved modifying loan terms for the deferred second loan program from shared appreciation to a 3 percent simple interest, deferred-payment loan; increasing the amount of deferred second loans for the Affordable For-Sale Housing Program 100 Percent AMI from 15 percent to 17 percent of the affordable prices; and revising the program guidelines for the Closing Cost Assistance Grant to allow up to one discount point to be paid by the buyer to lower the interest rate on the first trust deed loan.
- August 1, 2014 (HCR14-056) Informational Report - The Closing Cost Assistance Recoverable Grant Program (CCAG) was changed to a Homeownership Grant, forgiven at escrow closing; a down payment and closing cost grant of 6 percent of the purchase price up to \$20,000 was implemented for households earning up to 100 percent of AMI; First-Time Homebuyer Program guidelines were modified to allow the up-front mortgage insurance premium for Federal Housing Administration (FHA) loans and the funding fee for Veterans Affairs (VA) loans to be financed in the first trust deed loan.
- January 7, 2022 (HCR22-008) Housing Commission Board approved a modification to the City of San Diego First-Time Homebuyer Program's Deferred Loan Program to provide a deferred-payment, second trust deed loan of 17 percent to 22 percent of the purchase price.



POLICY

EFFECTIVE DATE: 7/20/87

NO: PO-RED-347.01

REVISION HISTORY: 5/13/91; 11/14/94; 8/19/96; 5/25/99; 6/18/10

SUBJECT: HOUSING PROGRAM LENDING AUTHORITY

Page 1 of 4

1 Purpose

To state San Diego Housing Commission policy and program parameters for lending funds to finance housing activities.

2 Policy

2.1 All San Diego Housing Commission (Commission) loans and grants will be approved in accordance with the stated Authority levels as shown on the attached Underwriting Criteria. All loans referenced in Underwriting Criteria Level 1 may be approved by the Chief Executive Officer of the San Diego Housing Commission (CEO) or designee. All loans referenced in Underwriting Criteria Level 2 may be approved by the Loan Committee. All other loans requiring Board of Commissioners of the San Diego Housing Commission (Board of Commissioners) approval will first be presented to the Real Estate Committee as an advisory Board to the Commission.

Loan and grant programs which have “tailored” terms and conditions expressly approved by the Board of Commissioners may vary from the Underwriting Criteria. The specific terms or conditions must be stated within the approved program. If a loan meets all the Underwriting Criteria as stated in Level One, with the exception of the tailored program terms, the loan may be approved by the CEO or designee.

2.2 In the event that an applicant has applied for grant funds in addition to loan funds, the requests shall be underwritten independently and in accordance with the criteria and limits stated in the attached Underwriting Criteria.

2.3 Notwithstanding levels of review specified in 2.1 above, processing and presentation by staff directly to the Board of Commissioners may be available for projects which meet Board of Commissioners authorized criteria contained in a published Notice of Funding Availability.

2.4 In the absence of a functioning Loan Committee, the Board of Commissioners shall consider and may approve loans as specified in Level Two of the Underwriting Criteria.

2.5 In the event that a loan application is not approved in accordance with Levels One and Two of the Underwriting Criteria, the applicant may request the decision be reviewed at a higher level, with the highest level being the Board of Commissioners.



SAN DIEGO
HOUSING
COMMISSION

POLICY

EFFECTIVE DATE: 7/20/87

NO: PO-RED-347.01

REVISION HISTORY: 5/13/91; 11/14/94; 8/19/96; 5/25/99; 6/18/10

SUBJECT: HOUSING PROGRAM LENDING AUTHORITY

Page 2 of 4

- 2.6 A quarterly report shall be provided to the Board of Commissioners stating all loans funded during that reporting period, status of loans in default and disclosure all loans modified by the CEO or the Loan Committee. The report will be forwarded to the Land Use and Housing Committee, on an informational basis, twice annually.

Approved:

Jeff Davis
Interim President & Chief Executive Officer

Date

SAN DIEGO HOUSING COMMISSION
UNDERWRITING APPROVAL THRESHOLDS FOR LOANS AND GRANTS

LEVEL ONE

CHIEF EXECUTIVE OFFICER: The Chief Executive Officer or designee may approve loans which meet all of the following underwriting criteria:

	FIRST TIME HOMEBUYER PROGRAM	ONE DWELLING UNIT OWNER OCCUPIED	2 TO 4 DWELLING UNITS WITH 1 UNIT OWNER OCCUPIED	1 TO 4 UNITS RENTALS
A. Loan and/or Unit Limits	<u>Up to 2547%</u> of Purchase Price	\$100,000	\$100,000	\$100,000
B. Maximum Loan-to- Completion Value Ratio	<u>Up to 9997%</u>	95%	95%	90%
C. Owner Debt-to-Income Ratio	<u>Up to 5045%</u>	45%	45%	40%
D. Property Debt Service	N/A	N/A	N/A	1.1
E. Approved Management and Affirmative Marketing Plan	N/A	N/A	N/A	N/A
F. Approved Operating Budget	N/A	N/A	N/A	Required
G. No Balloon Payment on Senior Liens				
H. Verifiable Owner Income				
I. Acceptable Credit Record				
J. Property Taxes are current				
K. Judgment not to exceed \$1,000 or subordinate to Housing Commission Loan				
L. Secure by Recourse Note and Trust Deed on the subject property				
M. No Negative Amortization				
N. Grants and unsecured loans not to exceed \$50,000				

SAN DIEGO HOUSING COMMISSION
UNDERWRITING APPROVAL THRESHOLDS FOR LOANS AND GRANTS

LEVEL TWO

LOAN COMMITTEE: The Loan Committee shall consider and may approve all loans which do not fall within the criteria cited in Level One, subject to the following limitations:

	FIRST TIME HOMEBUYER PROGRAM	ONE DWELLING UNIT OWNER OCCUPIED	2 TO 4 DWELLING UNITS WITH 1 UNIT OWNER OCCUPIED	1 TO 4 UNITS RENTALS
A. Loan and/or Unit Limits	<u>Up to 254</u> 7% of purchase price	\$100,000	\$100,000	\$100,000
B. Maximum Loan-to- Completion Value Ratio	<u>Up to 99</u> 97%	95%	95%	90%
C. Owner Debt-to-Income Ratio	55%	55%	50%	50%
D. Property Debt Service	N/A	N/A	N/A	1.05
E. Approved Management Plan	N/A	N/A	N/A	N/A
F. Approved Operating Budget	N/A	N/A	N/A	Required
G. Balloon Payments on Senior Liens – 5 or more years				
H. Negative Amortized Loans permitted if overall Loan-to-Completion value does not exceed 80%				
I. Secured by Recourse Note and Trust Deed on the subject property				
J. Grants and unsecured loans not to exceed \$100,000				