

REPORT

DATE ISSUED: February 20, 2008

REPORT NO: HCR 08-024

ATTENTION: Chair and Members of the Housing Commission  
For the Agenda of March 14, 2008

SUBJECT: Workshop Discussion: Underwriting Housing Rehabilitation Loans in the Current  
Housing Market

BACKGROUND:


Current housing market conditions have resulted in increased senior lien foreclosures and loan losses from subordinate Housing Commission rehabilitation loans. The Board of Commissioners is being asked to consider implementation of more restrictive underwriting guidelines for housing rehabilitation loans to reduce future losses.

The objective of the Housing Rehabilitation Department is to preserve and provide safe and decent housing for very-low, low, and moderate income property owners. The highest priority is to assist extremely low income homeowners, those who earn less than 30% of the Area Median Income (AMI) (currently \$23,700 for a four-person household). Historically, most of those homeowners are seniors with fixed incomes, earning less than 30% AMI. In the 28 year history of the Commission's Housing Rehabilitation Program, almost 70% of all homeowners assisted were very-low income, earning less than 50% AMI (currently \$39,500 for a four-person household), many considered unbankable from a private lending perspective. Commission Rehabilitation Loan programs are often the last resource for homeowners to make home repairs.

Housing Rehabilitation staff administers eleven different housing rehabilitation loan or grant programs (Attachment 1): nine are for owner-occupied properties, one accessibility grant exclusively for rental properties, and one lead grant for either owner-occupied or rental properties. The loan or grant terms are determined by the funding/agency sources: federal HOME funds, two HUD Lead Control Grants, three Housing Trust Fund resources, and Redevelopment Tax Increment Housing Set-aside funds.

Today's discussion will focus on the underwriting of rehabilitation loans that is done by Housing Commission staff and recommend changes.

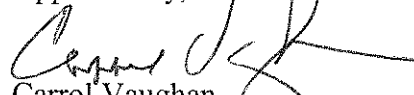
Respectfully submitted,



Cissy Fisher

Housing Finance & Development Director

Approved by,



Carrol Vaughan

Interim President & Chief Executive Officer

Attachments:

1. Housing Rehabilitation Programs administered by the San Diego Housing Commission.
2. Rehabilitation Loan Summary (Loans Not Underwritten by Loan Management)
3. History of Underwriting Housing Rehabilitation Loans and Recommendations

**HOUSING REHABILITATION PROGRAMS**  
**Administered by the San Diego Housing Commission**  
**(As of February 14, 2008)**

Programs	Target Areas	Property Types	Maximum Loan/ Grant Amount	Terms & Conditions	Occupant Area Median Income
0% Deferred Payment Loan	Citywide (San Diego)	Owner-occupied 1 unit (Single Family/Condo)	\$20,000	Repay loan principal upon future sale, rental or further loans/refinance	60% AMI
1% Deferred Payment Loan	Citywide (San Diego)	Owner-occupied (1-4 units)	\$35,000 for 1 unit \$50,000 (2-4 units)	Repay loan principal plus 1% interest per year upon future sale, further loans, or 30 years, whichever occurs first	80% AMI
0% Deferred Payment Loan for Lead Paint Remediation	Citywide (San Diego)	Owner-occupied (1-4 units)	\$5,000 per unit to maximum of \$15,000 for a multi-family project	Repay loan principal upon future sale or further loans or refinance. For lead based paint hazard remediation only	80% AMI
Lead Safe San Diego Grant	Citywide (San Diego)	Owner-occupied or rental property built prior to 1979 and occupied or frequently visited by child under 6 years of age	\$10,000 for single family residence or \$5,000 per multi-family unit plus \$5,000 for common areas	Non-repayable grant for remediation of lead-based paint hazards only. If rental property, landlord agrees to give rental preference to families with children under 6 years of age.	80% AMI
Mobile Home Repair Grant	Citywide (San Diego)	Owner-occupied Mobile Home	\$5,500	One-time only non-repayable grant	60% AMI
Disabled Tenant Accessibility Grant	Citywide (San Diego)	Privately owned rental property occupied by a tenant with disabilities	\$3,500	One-time only non-repayable grant for accessibility improvements only which are authorized by landlord	60% AMI
Mt. Hope Redevelopment Area Housing Rehabilitation Program	Residences located between: I-15 on the west, I-805 on the east, Hwy 94 on north, Imperial Ave on south	Owner-occupied 1 and 2- unit properties	\$5,000	Forgive 20% of grant each year for 5 years and no new loans in that period	80% AMI
			Home Repair Grant	Forgive 20% of grant each year for 5 years conditioned on continued owner occupancy and no new loans in that period	100% AMI
			\$5,000 Exterior Enhancement Grant	Deferred principal payment for 15 years plus 3% simple interest per year, or 0% principal-only payments for 15 years. Cannot be combined with above grants.	80% AMI
Southcrest Redevelopment Area Housing Rehabilitation Program	Residences located Between: I-15 on the west, 44 <sup>th</sup> St. on the east, Logan Ave on north, Gamma St. on south	Owner-occupied 1 and 2-unit properties	\$35,000 loan	Forgive 20% of grant each year for 5 years conditioned on continued owner occupancy and no new loans in that period	80% AMI
			Home Repair Grant	Forgive 20% of grant each year for 5 years conditioned on continued owner occupancy and no new loans in that period	80% AMI
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City Heights Redevelopment Area Housing Rehabilitation Program	Residences located Between: I-805 on the west, Home Ave to Euclid Ave to University on south, 54 <sup>th</sup> St between University & El Cajon Blvd on east, Monroe Ave from I-805 to Central, then Meade Ave to 54 <sup>th</sup> on the north	Owner-occupied 1 and 2-unit properties	\$10,000 Exterior Enhancement Loan	20% of principal forgiven each year for 5 years conditioned on owner-occupancy and no new loans in that period. If sell or encumber before 5 years, repay unforgiven principal plus 3% interest per year	100% AMI
Crossroads Redevelopment Area Housing Enhancement Loan Program ("HELP")	Residences located: Fox Canyon east side of Euclid Ave 100 ft corridors of Streamview Dr between 54 <sup>th</sup> & College Ave University Ave between 54 <sup>th</sup> & 59 <sup>th</sup> St El Cajon Blvd between 54 <sup>th</sup> & 73 <sup>rd</sup> St	Owner-occupied 1 and 2-unit properties	\$15,000 Home Repair Loan	10 year forgiveness: no forgiveness years 1- 5, 20% of principal forgiven each year years 6 thru 10 conditioned on owner- occupancy and no new loans. If sell or further encumber before 10 years, repay unforgiven principal plus 3% interest a year	100% AMI
Linda Vista Redevelopment Area Housing Rehabilitation Program	Residences located between: I-5 on the west, Hwy 163 on the east, Friars Rd on south, I-805/Linda Vista Rd/ Mesa College Dr/Tecolote Canyon/Rd on north	Owner-occupied Pre-1950 residences (one or more units)	\$15,000 Housing Enhancement Loan	Forgivable over 12 years conditioned on continued owner-occupancy and no new loans on property: No forgiveness years 1- 7. 20% of principal is forgiven each year from years 8 thru 12. If sold or further encumbered before 12 years, repay unforgiven principal plus 3% interest a year.	100% AMI
			\$10,000 Exterior Enhancement loan	Forgivable over 10 years conditioned on continued owner-occupancy and no new loans on property: No Forgiveness years 1- 5. 20% of principal is forgiven each year from years 6-10. If sold or further encumbered before 10 years, repay unforgiven principal plus 3% interest per year.	100% AMI

**Rehabilitation Loan Summary**  
**(Loans Not Underwritten by Loan Management)**  
**(7/1/02-12/31/07)**  
**(Period covering heavy Refinance climate with adjustable loans)**

<u>Fiscal Year Period</u>	<u>Loan Volume</u>	<u>Projects (with duplicate loans deducted)</u>
7/1/02-6/30/03	\$ 516,768.	49 cases
7/1/03-6/30/04	\$ 1,202,315.	98 cases
7/1/04-6/30/05	\$ 1,104,849.	79 cases
7/1/05-6/30/06	\$ 1,733,439.	105 cases
7/1/06-6/30/07	\$ 2,738,842.	127 cases
7/1/07-12/31/07	<u>\$ 1,058,635.</u>	<u>44 cases</u>
5 ½ FY Totals:	\$8,354,848.	502 cases

**Foreclosures on Rehab loans not underwritten by Loan Management:**

(Foreclosure records going back to 1995 reflected rehab loans which were underwritten by Loan Mgmt, principally HUD Rental Rehab projects, and amortized 3% loans, with some Mobile Home Deferred loans. There were only two 0% DPL's (not underwritten by Loan Mgmt) foreclosed upon starting in FY 2000 and no others until FY 2003 below)

<u>Fiscal Year</u>	<u>Amt of Write-off</u>	<u>Number of Cases</u>
FY 2003	\$ 8,475.	2 (1 Mob Hm def Loan & 1 0% DPL)
FY 2004	\$ 8,917.	2 (1 Mob Hm def Loan & 1 0% DPL)
FY 2005	\$ 11,900.	1 (a Mob Hm Def Loan)
FY 2006	\$ -0-	0
FY 2007	\$ 24,690.	1 (A Crossrds Redev with a 0% DPL)
FY2008	\$112,199.	7 (1 Mob Hm Def Loan, 3 0% DPLs, 3 City Hts )
5 ½ FY Totals:	\$166,181	13 (4 Mob Hm, 5 0% DPLs, 4 Redev Loans)

**HISTORY OF UNDERWRITING HOUSING REHABILITATION LOANS  
BY HOUSING COMMISSION STAFF**

Loan/Grant Program Type	Property Type	Maximum Amounts	Area Median Income	Loan-to-Value Ratio	Owner Debt Ratio	Back up Documentation	Approval Authority	Modifications	Recommendations
3% 15 yr amortized loan	Owner-occupied 1-4 units Citywide	1 unit: \$35,000 2-4: \$50,000	80% AMI	1 unit: 95% 2-4 units: 90%	1 unit: 42% 2-4 units: 40%	Verifiable Income Credit Report Full Title Report Drive by appraisal	CEO/ Loan Manager	3% Amortized became a 1% Deferred Pmt Loan (DPL) in 9/06	
Single Family Grant	Owner-occupied 1 unit only	1 unit: \$45,000 2-4: \$100,000 \$3,000	50% AMI	1 unit: 95% 2-4 units: 95% 95%	1 unit: 55% 2-4 units: 50% N/A	Verifiable Income Verifiable Title via latest recorded doc No recorded lien Recorded Memo of Lien Data Quick Property Profile Same as above	Loan Committee Housing Construction Officer (HCO) HCO	Grant became a 0% Deferred Pmt Loan in 8/96 DPL increased to \$10,000 in 10/01	
0% DPL	Owner-occupied 1 unit only Citywide	\$5,000 \$10,000	60% AMI	95%	N/A		HCO	DPL increased to \$20,000 in 10/06	
Targeted Redevelopment Area Forgivable Loans	Owner-occupied 1-2 units	\$20,000 Vary from \$5,000 to \$25,000	100% AMI	95%	N/A	Added PIRTS and Title Reports Data Quick Comparable Sales Underwritten same as 0% DPL	HCO		<b>Add to existing:</b>
Lead Paint 0% DPL	Pre-1979 Owner-occupied 1-4 units	\$5,000 per unit up to \$15,000	80% AMI	95%	N/A	Underwritten same As 0% DPL above	HCO		<b>Drive-by Appraisals</b> <b>Reduce to 80% LTV</b> <b>FICO scores &gt; 620</b>
<b>The Targeted Redevelopment Forgivable Loans and Lead Paint 0% DPL can be combined with the Citywide 0% DPL or 1% DPL if income/property eligible</b>									