San Diego HOUSING COMMISSION

ITEM 105

REPORT

DATE ISSUED: March 7, 2008 REPORT NO: HCR 08-25

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

SUBJECT: Proposed Amendments to San Diego Housing Trust Fund Ordinance to Increase Income Limits for Homebuyer Programs

REQUESTED ACTION:
Recommend City Council approval of the following amendments to the Municipal Code sections concerning the Housing Trust Fund as described in this Report.

STAFF RECOMMENDATION:
1) Amend City Municipal Code Chapter 9 Article 8 Division 5 "San Diego Housing Trust Fund" to allow Housing Trust Fund monies to be used to allow moderate income households (families with incomes of 80 percent to 120 percent of Area Median Income) to participate in the Housing Commission's workforce housing home purchase program, whereby the Housing Commission can provide secondary financing for up to 15 percent of the purchase price and downpayment assistance.
2) Amend City Municipal Code Chapter 9 Article 8 Division 5 Section 98.0504 so that up to 20 percent of the funds in the Housing Trust Fund Account could be expended to assist moderate income first-time homebuyers.

BACKGROUND:
In 1990, the San Diego Housing Trust Fund (HTF) was developed to address a wide array of local housing needs, ranging from transitional programs and permanent supportive housing to affordable rental housing and homebuyer assistance. The original City Ordinance that created the HTF included an income ceiling for homebuyer program participants of 100 percent of Area Median Income (AMI). In addition, the Ordinance limited spending for families with incomes above 80 percent AMI to no more than 10 percent of the funds in the HTF

For several years, the Housing Commission's home purchase products, which consist of second position financing and downpayment assistance, worked well with the federal HOME program, which has a ceiling of 80 percent AMI. The Housing Commission has a Housing Trust Fund program for homebuyers with incomes of 80 percent to 100 percent of AMI which is slightly different from the HOME-funded program, with a cap of fifteen percent participation shared appreciation loan and downpayment assistance of 4 percent of the purchase price to a maximum of $10,000.

When the program began, the average income of the families participating in the Housing Commission homebuyer program was below 65 percent and the average silent second trust deed loan was below $25,000. Very few loans or grants were made to families with incomes near 80 percent AMI. However, in 2000 prices started to rise and families at 65 percent AMI could not afford to buy, even with the HTF and other Housing Commission assistance. (See Attachment 3 for recent data.)

Currently, the income profile of the typical Housing Commission buyer is closer to 80 percent AMI and the average shared appreciation loan is $75,000 (maximum of 25 percent of the purchase price) which is paired with downpayment assistance of approximately $12,000 (6% of the purchase price of $15,000 maximum). The program experienced a steep decline in participation because so little of the local for-sale inventory was available at prices that fit within the current program limits. Recent drops in interest rates and property prices have renewed interest in the program.

The impact of the proposed increase in the eligible income would be that more families could qualify to use the Housing Commission program to purchase homes in the city. A family of four (income of $86,500) could qualify to use Housing Commission loan and grant products to purchase homes with an estimated sales price of up to $440,000, based on a deferred second trust deed loan of 15 percent of the purchase price. To compare, a family with an income at 80 percent of AMI could purchase a home with an estimated sales price of $360,000, using the current program which allows for a 25 percent deferred loan.

The recommended change to 120 percent AMI is consistent with Redevelopment homebuyer program income limits. Consolidating City homebuyer programs into the most workable models will help developers, home buyers, and lenders understand and take advantage of the available assistance.

In addition, the proposed change would have the following benefits:

- Provide a mechanism for working families to purchase homes locally;
- Remove these families from the local rental market (which experienced a thirteen percent average increase in rents over the past year) thus helping to retain overall affordability of local rental housing;
- Enable the Housing Commission to help more families as the per-family subsidy is reduced;
- Enable more families to take advantage of the current slowdown in the market and the increased number of homes for sale;
- And, in some cases, promote neighborhood safety and protect local housing values as families purchase vacant or foreclosed homes.

In response to the subprime lending crisis, lending institutions are curbing access to minimum downpayment home purchase products. In turn, potential homebuyers at a wide range of incomes will be shut out of the market because families do not have the large downpayments needed for traditional home purchase loans. Homebuyers using Housing Commission assistance obtain fixed rate first position mortgage loans based on their incomes, coupled with silent second position loans and downpayment assistance from the Housing Commission program, so they are protected from the volatility of variable interest rate loans and they have a means to deliver the downpayment required by lenders. [NOTE: Recommended changes in income eligibility do not apply to HOME funded homebuyer programs.]

The Housing Commission's investment is at risk in a down market. The program must rely on bona fide appraisals to assess its security position and acceptable sales prices; appraisal practices are currently under review by several regulating entities. Staff regularly reviews the program to assure that loan-to-value ratios and other underwriting considerations protect the Housing Commission's investment to the appropriate level. The potential loss of equity due to loss of value is tempered by the fact that the Housing Commission participates in the low end of the market, where the supply of potential buyers has historically been strong. In addition, if the program experiences losses, the Housing Commission can discontinue or reduce program funding through the budget process. Upon resale, the Housing

Commission will collect the principal amount of its investment and, for 30 years, a proportionate share of any increase in value (appreciation).

FISCAL CONSIDERATIONS:
If approved, this change would not have a fiscal impact unless the Housing Commission and the Housing Authority approved a change to the Housing Commission budget.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
Housing Commission staff spoke with local affordable housing developers who expressed concern that funds usually reserved for rental housing production might be diverted to homebuyers.

As noted, the Housing Commission's budget process is a control point for this change. In addition, the Board may direct staff to review the effects of this revision in FY2013 to determine if a roll-back in income eligibility limits is desirable at that time.

Statewide, many local jurisdictions have expressed interest in the proposal due to the extremely high cost of for-sale housing in their locales. Staff members are also talking with Congressional offices about the possibility of updating the HOME Program to allow families with incomes above 80 percent AMI to use HOME-funded home buying assistance. Members of the San Diego City County Reinvestment Task Force expressed concern about the growth in the number of foreclosures in city neighborhoods and viewed this proposal as a positive step to alleviating this condition.

ENVIRONMENTAL REVIEW:

This activity is not a project within the meaning of the California Environmental Quality Act (CEQA) pursuant to Section 15060(c)(3) of the State CEQA guidelines. This activity is also exempt from review under the National Environmental Policy Act as no federal funds are involved.

KEY STAKEHOLDERS & PROJECTED IMPACTS: Stakeholders consist mainly of potential homebuyers who earn more than 80% AMI ($63,200 for a family of four) and no more than 120% AMI ($86,500 for a family of four). Secondary beneficiaries could include home sellers, lending institutions and others engaged in residential real estate sales activities.

Respectfully submitted,

Peter Armstrong
for Cissy Fisher
Director, Housing Finance & Development

Approved by,

Carrol Vaughan
Carrol M. Vaughan
Interim President & Chief Executive Officer

Attachments:
1. US HUD 2008 San Diego Median Income Chart
2. San Diego Housing Commission First-Time Homebuyer Programs Chart
3. Silent Second Trust Deed Loans 2001 – 2007

ATTACHMENT 1

U.S. Department of Housing and Urban Development 2008 San Diego Median Income: $72,100 *Income Limits 80% and Below are Based on HUD Formula Income Limits Adjusted for High Housing Cost Area

		Very Very Low Income		Very Low Income
Family Size	30% Income	35% Income	40% Income	50% Income
ONE	$16,600	$19,350	$22,100	$27,650
TWO	$18,950	$22,100	$25,300	$31,600
THREE	$21,350	$24,900	$28,450	$35,550
FOUR	$23,700	$27,650	$31,600	$39,500
FIVE	$25,600	$29,850	$34,150	$42,650
SIX	$27,500	$32,050	$36,650	$45,800
SEVEN	$29,400	$34,300	$39,200	$49,000
EIGHT	$31,300	$36,500	$41,700	$52,150

				Low Income
Family Size	60% Income	65% Income	70% Income	80% Income
ONE	$33,180	$35,950	$38,700	$44,250
TWO	$37,920	$41,100	$44,250	$50,550
THREE	$42,660	$46,200	$49,750	$56,900
FOUR	$47,400	$51,350	$55,300	$63,200
FIVE	$51,180	$55,450	$59,700	$68,250
SIX	$54,960	$59,550	$64,150	$73,300
SEVEN	$58,800	$63,650	$68,550	$78,350
EIGHT	$62,580	$67,800	$73,000	$83,400

	Moderate Income	Moderate Income	Moderate Income	Moderate Income
Family Size	90% Income	100% Income	110% Income	120% Income
ONE	$45,450	$50,450	$55,500	$60,550
TWO	$51,900	$57,700	$63,450	$69,200
THREE	$58,400	$64,900	$71,350	$77,850
FOUR	$64,900	$72,100	$79,300	$86,500
FIVE	$70,100	$77,850	$85,650	$93,400
SIX	$75,300	$83,650	$92,000	$100,350
SEVEN	$80,500	$89,400	$98,350	$107,250
EIGHT	$85,650	$95,150	$104,700	$114,200

Effective 2/13/08

ATTACHMENT 2

FIRST-TIME HOMEBUYER PROGRAMS

Programs	Area Median Income	Maximum Purchase Price	Loan/Grant Amount	Terms And Conditions	Asset Limitations	Fee Schedule (Effective6/15/07)
Second Trust Deed Loans						
Shared Appreciation	80%	**Federal Funds:** $454,100/single family dwellings and $375,250/attached units. Regulated by HUD **State CalHome Funds:** No maximum purchase price. Price paid must be substantiated by a qualified appraiser.	25% of purchase price or appraised value; whichever is less.	Shared Appreciation provision for the full 30 year loan term, no interest and no monthly payments are due.	$10,000 for first household member and $500 for each additional household member.	**Federal Funds:** 1% of loan amount or $200, whichever is greater. **State CalHome Funds:** $50
PROPOSED **Shared Appreciation**	**120%**	**No maximum purchase price. Price paid must be substantiated by a qualified appraiser**	**15% of purchase price or appraised value; whichever is less**	**Shared Appreciation provision for the full 30 year loan term, no interest and no monthly payments are due**	**$10,000 for first household member and $500 for each additional household member**	**1% of loan amount or $200, whichever is greater**
Condominium Conversions	100%	No maximum purchase price. Price paid must be substantiated by qualified appraiser.	15% of purchase price or appraised value; whichever is less.	Shared Appreciation provision for the full 30 year loan term, no interest and no monthly payments are due.	None required	1% of loan amount or $200; whichever is greater.
Condominium Conversions	80%	$375,250 Regulated by HUD	25% of purchase price or appraised value; whichever is less.	Shared Appreciation provision for the full 30 year loan term, no interest and no monthly payments are due.	$10,000 for first household member and $500 for each additional household member.	1% of loan amount or $200; whichever is greater.

Programs	Area Median Income	Maximum Purchase Price	Loan/Grant Amount	Terms And Conditions	Asset Limitations	Fee Schedule (Effective 6/15/07)
City of La Mesa DCCA	80%	$422,750 Regulated by HUD	$120,000	The loan term is 30 years. Interest rate is 7% with payments deferred for the term of the loan.	$10,000 for first household member and $500 foe each additional household member.	No fee to buyer.
Down Payment Loans and Grants						
Down Payment/ Closing Cost Assistance Grant	80%	$454,100/single family dwellings and $375,250/attached units. Consistent with HUD maximum.	$15,000 or 6% of purchase price; whichever is less.	This is a recoverable grant. If property is sold or refinanced within the first six years, the grant is due and payable, plus 5% interest. After six years, the grant is forgiven.	$10,000 for first household member and $500 for each additional household member.	$200
Down Payment/ Closing Cost Assistance Grant	**PROPOSED CHANGE** 81-**120%**	$454,100 Consistent with HUD maximum.	$10,000 or 4% of purchase price; whichever is less.	This is a recoverable grant. If property is sold or refinanced within the first six years, the grant is due and payable, plus 5% interest. After six years, the grant is forgiven.	$10,000 for first household member and $500 for each additional household member.	$200
Mortgage Credit Certificate (MCC)		**STATE REGULATED PROGRAM – CONDITIONS ARE ESTABLISHED BY IRS**				
Nontargeted	115%	Resale $550,310 New $505,086	15% Tax Credit		None	$250
Targeted	140%	Resale $672,600 New $617,328	20% Tax Credit		None	$250
Low Income	80%	Resale $672,600 New $617,328	20% Tax Credit		None	$250

:dl\FTHBProgramsChart-B (Proposed 2/29/08)

ATTACHMENT 3

Housing Commission Silent Second Trust Deed Loans 2001 – 2007

Year	Number of Loans	Total Loans	Average Loan
2001	90	$2,810,234	$31,000
2002	22	683,989	31,000
2003	36	1,873,290	52,000
2004	6	425,250	71,000
2005	6	470,750	79,000
2006	12	863,497	72,000
2007	SApprec: 3	1,688,621	73,000
	Defered: 34	1,079,617	32,000