

**REPORT**

DATE ISSUED: June 6, 2008

REPORT NO: HCR08-065

ATTENTION: Chair and Members of the Housing Commission  
For the Agenda of July 9, 2008

SUBJECT: Proposed Revisions to the First Time Homebuyer Program (Citywide)

REQUESTED ACTION:

Housing Commission approval to revise the First Time Homebuyer Loan Program and amend Housing Program Lending Authority Policy 600.101.

STAFF RECOMMENDATION:

1. Modify loan terms for deferred second loan program from shared appreciation to a three percent (3%) interest deferred loan; and
2. Amend the Housing Program Lending Authority Policy 600.101 Underwriting Approval Thresholds to allow the Chief Executive Officer, or designee to approve a First Time Homebuyer Program loan with an owner debt-to-income ratio up to 45 percent (currently 42 percent).

BACKGROUND:

Housing Commission staff is requesting the deferred loan program be modified from shared appreciation loans to three percent simple interest deferred payment loans. This change is requested to ensure its continued effectiveness and will allow the Housing Commission to utilize the \$1 million allocation of CalHome program funds to benefit first time homebuyers in purchasing a home. This revision will not eliminate the shared appreciation loan program but only give direction to the staff to utilize the deferred interest program until further direction is given to staff.

The San Diego Housing Commission has offered a deferred second trust deed loan program since 1992 to assist first time homebuyers purchase market rate and affordability-restricted homes. The program has evolved over the years; Attachment 1 to this report summarizes the previous revisions to the loan program. Originally the program included a shared equity provision, later a shared appreciation provision was added. In March 2006, the Board approved the creation of a three percent interest deferred payment loan to assist first time homebuyers purchasing affordability restricted units.

Since 2002 the majority of the deferred second trust deed loans have been funded using the State's CalHome Program funds. In 2008, the Housing Commission received an additional \$1 million of CalHome funds; however, the CalHome program has been modified to require a cap of \$40,000 per funding request. Because of this program change, it is necessary to supplement the CalHome money with HOME funds to meet the funding needs of the buyers.

The Department of Housing and Community Development (HCD) has sent letters and emails strongly encouraging agencies to use the CalHome funds with interest deferred loan terms instead of a shared appreciation component. In today's market HCD staff believes a shared appreciation loan no longer returns the highest rate of interest. Also, the State regulations only allow the agency to receive a net share of the appreciation and gives the owner credit for numerous items. The deductions/credits to owners have increased thereby reducing the amount of appreciation an agency could receive. In past

years with very high rates of appreciation, a percentage of the net appreciation may have been a higher amount than a fixed rate of return. Given today's market of decreasing prices, it is difficult to predict appreciation and the return on a three percent simple interest note may outweigh that offered by a share of the appreciation. In addition, a deferred interest loan has other benefits to consider.

1. Three percent interest deferred payment loans will be easier for prospective buyers to understand and comprehend. Buyers can also compare our programs to those offered in the market and would know they are getting an attractive loan because they can see other second loans are at much higher interest rates with monthly payments.
2. Presently, lenders must attend a workshop and be certified by Housing Commission staff in order to submit financial packages for shared appreciation loans. The shared appreciation loans are complicated and require additional disclosures; therefore, lenders must have full knowledge of the requirements prior to becoming participating lenders. Training workshops are time consuming and are usually presented twice a year. A simple interest deferred payment loan program is not complicated and would not require a lender to attend a workshop to receive certification as a program participant. Once they become a participating lender, they would be able to immediately submit loan packages for all Housing Commission First Time Homebuyer Programs.
3. The shared appreciation loan program was rejected by the California Housing Finance Agency. The result is that buyers cannot use the very desirable CalHFA first trust deed loan program with the Housing Commission's existing second loan program. CalHFA is supportive of a simple interest deferred payment loan.
4. Internally, the servicing of a deferred interest rate loan will be significantly less cumbersome. Although the buyers receive and execute a Disclosure Notice describing the terms and conditions of the shared appreciation at least 30 days prior to signing loan documents, a large majority remain unaware of their financial obligation. This has resulted in the loan servicing team expending many hours each workday explaining the terms to owners wanting to refinance or sell their property. In some instances, lawsuits have been filed against the Housing Commission regarding the sharing of equity provision.
5. A survey of other local agencies and nonprofits found the majority offering First Time Homebuyer Programs provided deferred loans with a simple interest rate.

The deferred second loan program presently has a funding limit of 25 percent of the purchase price. Due to the CalHome program constraints, it will be necessary to fund two separate deferred loans. The CalHome funds will be recorded in second position and the HOME funds will be in third position. The HOME documents will have provisions that tie the loans together and will require both loans to be paid off at the same time.

The underwriting of the first time homebuyer loans and grants are in accordance with Housing Commission Program Lending Authority Policy 600.101. Attachment 2 reflects the underwriting approval thresholds for loans and grants as they are currently applied. When the policy was originally created the authority under Level One allowed the Chief Executive Officer or designee to approve buyers with total debt ratios up to 40 percent of their income. Loan Committee's level of authority was to 55 percent. This policy was later revised to increase the debt ratio to 42 percent for Level One.

Over the past five years 40 first time homebuyer loan and grant requests have been presented to Loan Committee for consideration. Most required Loan Committee consideration because the debt ratio exceeded the Chief Executive Officer's level of authority. During the five years, 16 loans went before the Committee because the debt ratio was between 43 and 45 percent of the buyer's income. All of the loans were approved. Presentation to the Loan Committee will add approximately two to three weeks to the underwriting process. In today's market a total debt ratio of 45 percent is not considered a hardship to the buyer and none have been denied the loan request if presented for consideration. Housing Commission staff is requesting the lending authority for Level One be revised to allow the Chief Executive Officer or designee to approve First Time Homebuyer Program loans for buyers with debt ratios up to 45 percent of their income. The change will allow loan requests that meet all underwriting criteria, including a debt ratio up to 45 percent, be approved internally which will greatly expedite the process and escrow closing.

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 per 24 CFR 58.34(a)(3).

KEY STAKEHOLDERS & PROJECTED IMPACTS:

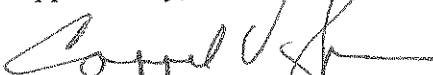
The primary stakeholders would be the direct beneficiaries: persons or households requesting financial assistance through the First Time Homebuyer Programs, with incomes at or below 80 percent of area median income. Additional stakeholders include the lenders who will be able to immediately access all the assistance offered under the First Time Homebuyer Programs.

Respectfully submitted,



Cissy Fisher  
Director of Housing Finance

Approved by,



Carrol M. Vaughan  
Interim President & Chief Executive Officer

Attachments: 1 – Deferred Loan Program Timeline  
2 – Underwriting Approval Thresholds for Loans and Grants

Distribution of these attachments may be limited. Copies available for review during business hours at the Housing Commission offices at 1122 Broadway, Main Lobby.

## ATTACHMENT 1

### DEFERRED LOAN PROGRAM TIMELINE

- April 6, 1992 (HCR 92-093) Silent second trust deed loan program was created to help low-income households (80% or less of AMI) qualify for home ownership using 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 loan program was created for buyers earning 80% or less of AMI using 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)
- July 20, 1992 (HCR 92-196) 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% in year one, with 80% to the Housing Commission. Beginning in year two, the buyer's equity increased, as the Commission's decreased, by one percent per year. (No loans were funded under this program description)
- February 22, 1993 (HCR93-044) Shared equity provision was amended to a 50%-50% 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% of the purchase price or \$25,000, whichever was less.
- June 1, 2001 (HCR01-052) Shared equity loan amount was increased to 25% of the purchase price or \$40,000, whichever was less.
- November 15, 2002 (HCR02-097) Shared equity loan amount was amended to 25% of the purchase price. A specific dollar amount was eliminated.
- May 14, 2004 (HCR04-40) Shared equity loan program was created to assist tenants affected by condominium conversions. The loan terms for buyers at or below 80% AMI mirrored the existing silent second loan program. A new program was added to assist buyers up to 100% AMI with loan not to exceed \$15,000.

- May 6, 2005 (HCR05-34) Shared Equity Loan Program and Condominium Conversion 80% AMI Loan Program were revised to a 30-year shared appreciation loan program
- March 3, 2006 (HCR06-21) A two-tiered, 3% interest deferred payment loan program was created to assist buyers purchasing affordability restricted units. The first tier assists buyers earning 80% or less AMI with a second trust deed loan not to exceed 25% of the purchase price. The second tier helps buyers earning up to 100% AMI with a second trust deed loan up to 15% of the purchase price. In addition, the Condominium Conversion 100% AMI Loan Program was revised to a maximum loan amount of 15% of the purchase price and the shared appreciation provision was extended to 30 years.
- August 8, 2006 (HAR06-21) Housing Authority delegated authority to Housing Commission Board to make future revisions to the First Time Homebuyer Programs.

**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 FOR PROFIT RENTALS	5 OR MORE FOR PROFIT RENTALS	NONPROFIT RENTALS
A. Loan and/or Unit Limits	• \$35,000	• \$35,000	• \$50,000	• \$50,000	• \$50,000	• \$50,000 or 50 Units
B. Maximum Loan-to-Completion Value Ratio	• 97%	• 95%	• 90%	• 80%	• 75%	• 90%
C. Owner Debt-to-Income Ratio	• 42%	• 42%	• 40%	• 40%*	• 40%*	N/A
D. Property Debt Service	N/A	N/A	N/A	• 1.1	• 1.1	• 1.05
E. Approved Management and Affirmative Marketing Plan	N/A	N/A	N/A	N/A	Required	Required
F. Approved Operating Budget	N/A	N/A	N/A	Yes	Required	Required
G. No Balloon Payment on senior liens						
H. Verifiable Owner Income						
I. Acceptable Credit Record						
J. Property Taxes are current						
K. Judgement 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 \$10,000.						

\* If applicable.

SAN DIEGO HOUSING COMMISSION  
**UNDERWRITING APPROVAL THRESHOLDS FOR LOANS & GRANTS**

**LEVEL TWO**

**LOAN COMMITTEE:** The Loan Committee shall consider and may approve of 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 FOR PROFIT RENTALS	5 OR MORE FOR PROFIT RENTALS	NONPROFIT RENTALS
A. Loan and/or Unit Limits	• \$35,000	• \$45,000	• \$100,000	• \$100,000	• \$100,000 or 100 Units	
B. Maximum Loan-to-Completion Value Ratio	• 97%	• 95%	• 95%	• 90%	• 90%	• 95%
C. Owner Debt-to-Income Ratio	• 55%	• 55%	• 50%	• 50%	• 50%	N/A
D. Property Debt Service	N/A	N/A	N/A	• 1.05	• 1.1	• 1.00
E. Approved Management Plan	N/A	N/A	N/A	N/A	Required	Required
F. Approved Operating Budget	N/A	N/A	N/A	N/A	Required	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. Secure by Recourse Note and Trust Deed on the subject property						
J. Grants and unsecured loans not to exceed \$15,000						

SAN DIEGO HOUSING COMMISSION  
**UNDERWRITING APPROVAL THRESHOLDS FOR LOANS AND GRANTS**

**LEVEL THREE**

**HOUSING COMMISSION:** The Housing Commission shall consider and may approve all loans not meeting criteria cited above.

	FIRST TIME HOMEBUYER PROGRAM	ONE DWELLING UNIT OWNER OCCUPIED	2 TO 4 DWELLING UNITS WITH 1 UNIT OWNER OCCUPIED	1 TO 4 UNITS FOR PROFIT RENTALS	5 OR MORE FOR PROFIT RENTALS	NONPROFIT RENTALS
--	------------------------------	----------------------------------	--	---------------------------------	------------------------------	-------------------

A. Loans over \$100,000

B. Exceeding 100 units in size

C. Loans may be secured by Trust Deeds(s) on off-site real property or by other means approved by the Housing Commission

D. Nonrecourse Notes

E. Grants and unsecured loans in excess of \$15,000