

REPORT

DATE ISSUED: August 5, 2009 **REPORT NO:** HCR 09-083

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of August 21, 2009

SUBJECT: Proposed Revisions to the Neighborhood Stabilization Program and Budget
Revision – Council Districts 3, 4, 7 and 8

REQUESTED ACTION:

1. Housing Commission and City Council approval of the proposed revisions to the Neighborhood Stabilization Program (NSP) for homeownership as detailed in this report;
2. Housing Commission and Housing Authority approval of a Fiscal 2010 Budget Revision.

STAFF RECOMMENDATION:

1. Approve a revision to the NSP to allow the Housing Commission (HC) to purchase and rehabilitate single family dwellings and condominiums that have been abandoned or foreclosed in order to resell the homes to eligible low and moderate first time buyers under the NSP or to rent the homes to eligible very low income renters;
2. Approve a revision (Attachment 1) to the Fiscal Year 2010 budget that will transfer \$1,700,000 from Homeownership Loans and Grants to Rental Housing Development and authorize the President and Chief Executive Officer to revise the budget to include program income as it is received for NSP activities.

BACKGROUND:

On October 1, 2008 the Housing and Recovery Act of 2008 was enacted. Under the Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes provision, \$3.9 billion of funding was distributed to local entitlement jurisdictions and to the 50 states. The City of San Diego was awarded \$9,442,370; the Housing Commission administers the Neighborhood Stabilization Program (NSP) activities on behalf of the City.

The NSP Plan for first time homebuyers includes a financing mechanism to ensure affordability (silent second and rehabilitation loan package) for buying units through NSP.

The Housing Commission's Fiscal Year 2010 budget includes \$3,700,000 of NSP funds allocated to assist eligible first time homebuyers acquire homes and rehabilitate the properties. The existing program includes the following assistance:

Acquisition

- Zero percent interest deferred payment second trust deed loans up to 17 percent of the purchase price for a term of 30 years
- Closing cost assistance grants up to three percent of the purchase price. The grant is forgiven in six years if the property remains owner occupied
- Mortgage Credit Certificates

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Rehabilitation

Loans are at zero percent interest with the following terms:

- Loans up to \$10,000 are forgiven after five years
- Loan balances of \$10,001 up to \$30,000 are forgiven after ten years
- Loan balances in excess of \$30,001 are forgiven after fifteen years

Housing Commission staff follows a preapproval process to determine prospective buyers' eligibility under NSP. To date, of the 76 prequalification packages received: 45 buyers have been preapproved; 26 have been denied (fourteen-high debt ratio, five-credit problems, three-over income, two-no down payment, one-over assets and one-not a first time homebuyer); and five are still in process. Some buyers are working directly with HC lending partners to get preapproved instead of applying through the Housing Commission. To date only five buyers have accepted offers under the NSP. The first buyer closed escrow on July 31, 2009. Each transaction includes a request for HC acquisition funds plus a rehabilitation loan.

Bank of America and Fannie Mae (FNMA) provide the Housing Commission with a list of the properties they have for sale in the targeted areas. Preapproved buyers receive a copy of the available properties weekly and they can also purchase homes listed on the Multiple Listing Service. The greatest hurdle for buyers is the low inventory of available foreclosed homes priced at or below \$300,000, currently the maximum allowed purchase price. When the buyers find a home and make an offer to purchase most are out-bid. Asset managers have stated that most properties in this price range receive 20 offers well in excess of the listing price; one of the buyers has made 25 offers and has been out bid each time. Recognizing this problem, FNMA has invited Housing Commission staff to access the "Home Path" system, which will provide a fifteen day "first look" period.

Housing Commission staff is recommending increasing the maximum purchase price to \$451,250 to be consistent with the Department of Housing and Urban Development's safe harbor limit for the city-wide first time homebuyer second loan program. Few buyers are able to purchase a home above \$300,000; however, the increase would give some moderate income buyers with larger families more options in their search for a first home.

Bank of America's (BofA) original intent was that the Housing Commission purchase the properties from the list. However, HC buyers are not getting preference if the property is listed for sale and they are not offered a "first look" at the properties. BofA has stated if the Housing Commission purchases the properties, we will have the opportunity to purchase prior to them being listed for sale and the properties will be available below the listed price if we use their real estate agent. This will save BofA money and the bank will pass the savings onto the Commission.

Staff is proposing a revision to the NSP to include the Commission's ability to directly purchase foreclosed or abandoned properties from the banks, FNMA or from any other sources available to us. The purchase and rehabilitation of residential properties that have been abandoned or foreclosed in order to sell, rent or redevelop such properties is an eligible activity. Attachment 2 is a summary of the process that the Housing Commission would use to purchase the foreclosed properties and resell the

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homes to eligible buyers. It is also likely the Housing Commission will rent some of these homes to comply with the program's requirement of using at least 25 percent of the funds to benefit households at 50 percent area medium income (\$41,300 for a family of four) and below.

Also recommended is a Fiscal Year 2010 budget revision to deduct \$1.7 million from Homeownership Loans and Grants, resulting in a decrease from \$7,033,314 to \$5,333,314. The funds will be in Rental Housing Development, increasing that budget from \$17,250,691 to \$18,950,691. Rental Housing Development includes funds that can be used for the acquisition of properties for resale.

Finally, it is recommended that the CEO (or designee) be authorized to revise the fiscal year 2010 budget to include program income as it is earned for NSP activities. It is anticipated the \$1.7 million will be used to purchase and rehabilitate seven to ten homes. Through the resale of each home the Housing Commission will recapture a portion of the funds used to acquire the properties as program income. The program income money can then be used to purchase additional foreclosed homes.

FISCAL CONSIDERATIONS:

The total amount budgeted for homeownership activities will not be affected by these recommended actions. The proposed revisions will result in an alternative means to achieve homeownership offered to eligible buyers.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS:

Three public hearings for the proposed substantial amendment are scheduled. The first scheduled hearing is Friday, August 21, 2009 at 9:00 a.m. at the San Diego Housing Commission. The second scheduled hearing is Wednesday, September 2, 2009 at 2:00 p.m. at the City Council Land Use and Housing Committee. The final scheduled hearing is Tuesday, September 15, 2009, at the San Diego City Council.

All hearings are noticed on www.sandiego.gov/cdbg, www.sdhc.org and four local newspapers.

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).

Respectfully submitted,


Cissy Fisher

Vice President, Special Housing Initiatives

Approved by,


Carrol M. Vaughan

Executive Vice President &
Chief Operating Officer

Attachments: 1 – Budget Amendment
2 – Summary Housing Commission Purchase and Resale

Attachment 1

Budget Amendment

	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>
Homeownership (Org 347)			
<u>Salaries and Benefits</u>	391,466		
<u>Services and Supplies</u>			
Legal	20,000		
Training	3,500		
Travel	2,000		
Contract/Consultant	61,000		
Direct Hire Contractor	80,069		
Office Rent	55,453		
Sundry	13,967		
<u>Housing Programs</u>			
Loans and Grants	6,405,859	4,705,859	<1,700,000>
Grand Total	7,033,314	5,333,314	<1,700,000>
Rental Housing Development (Org 374)			
<u>Salaries and Benefits</u>	348,005		
<u>Services and Supplies</u>			
Legal	110,000		
Training	2,100		
Travel	1,500		
Contract/Consultant	411,520		
Office Rent	31,941		
Sundry	7,535		
<u>Housing Programs</u>			
Site Acquisition/Housing Development	16,338,090	18,038,090	1,700,000
Grand Total	17,250,691	18,950,691	1,700,000

Attachment 2

Summary Housing Commission Purchase and Resale (Bank of America Acquisition)

The following is a summary of the process to purchase homes from Bank of America:

1. Receive weekly list of foreclosed properties from Bank of America
2. Housing Commission staff drives by available properties
3. Staff notifies Bank of America which properties are of interest and receives listing price
4. Staff inspects interior of home and evaluates condition
5. Staff informs Bank of America which properties Housing Commission wants to purchase
6. Listing agent for Bank of America completes Purchase Agreement between Bank of America and San Diego Housing Commission
7. A 45-day escrow is opened. Housing Commission has 21 days to complete all due diligence; including completing a work write-up for repairs, estimating costs for repairs, environmental, lead based paint testing, appraise property, etc.
8. If purchase price is not at least one percent below the appraised value, the price can be renegotiated or the transaction cancelled with a full refund of our earnest money deposit

Once the Housing Commission acquires title to the property, it will be immediately offered for sale to an eligible buyer who has been preapproved for our NSHP. The rehabilitation work will also start as soon as the Commission has ownership. Rehabilitation for items such as replacement of the carpet or flooring, painting and purchasing of appliances will be completed once a buyer has been selected and escrow opened. The buyer will then be involved in the selection of these items to “personalize” the home.

If none of the preapproved buyers are interested in the available home, it will be listed with a real estate agent and offered for sale to a buyer meeting the eligibility criteria under the NSHP.

The costs to acquire the foreclosed property and rehabilitate it will be funded using the Neighborhood Stabilization Program money in Rental Housing Development. It is

anticipated the buyers of the Housing Commission acquired properties will need our financial assistance and benefits of the NSHP offered to buyers who are able to acquire a foreclosed home directly from the banks. A probable scenario of a purchase by the Housing Commission and the resale of the home to an eligible buyer is as follows:

Housing Commission Purchase

Listing Price	\$212,000*
Closing Costs	6,360
Rehabilitation	<u>30,000</u>
Total Investment	\$248,360

*In most cases the listing price is below the market value to entice multiple offers/bids from prospective buyers.

Purchase Transaction to Eligible Buyer

Purchase Price	\$225,000 (appraised value prior to rehab)
Buyer's 3% down payment	\$ 6,750
1 st TD loan	180,000 (80% of purchase price)
HC 2 nd loan	<u>38,250 (17% of purchase price)</u>
	\$225,000
HC Rehab loan	16,610 (totally forgiven after 10 years)
HC closing cost assistance grant	<u>6,750 (forgiven after 6 years)</u>
Total Transaction	\$248,360

The Housing Commission's 2nd TD loan will be due upon sale, transfer, if the property is no longer owner occupied or 30 years.

Under this scenario, the Housing Commission will have approximately \$180,000, less costs to sell, in program income to invest in the purchase of another foreclosed home to resale to another eligible buyer.