



REPORT

DATE: For the Agenda of November 15, 2002 ITEM 101

REPORT NO.: HCR02-097

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

SUMMARY

Issue: Should the Housing Commission review and, if necessary, modify its First Time Homebuyer Program (FTHB) to ensure that it continues to be effective and responsive in today's changing housing market?

Recommendation: That the Housing Commission review the FTHB Program as outlined in this report and recommend Housing Authority approval to:

1. Modify the amount of the second trust deed loan funded under the Shared Equity Loan Program from \$40,000 to 25 percent of the maximum purchase price or appraised value, as established by HUD (currently \$261,609); and
2. Increase the amount provided under the Down Payment/Closing Cost Assistance Grant (Down Payment Program) to the lesser of \$7,500 (up from \$5,000) or four percent of the purchase price.

HOME Program Compliance: Currently, the Shared Equity Loan Program primarily uses HOME Investment Partnership (HOME) funds under a program structure previously approved by HUD. The Down Payment Program currently uses local funds. As required by HOME regulations, 80 percent of median area income (MAI) is the eligible limit for families acquiring housing with HOME funds.

Previous Related Actions: On June 15, 1992, (Report No. 92-173), the Housing Commission approved the Housing Trust Fund's Recoverable Grant Program and Shared Appreciation Program. On July 20, 1992, (Report No. 92-196), the Housing Commission approved the overall HOME Program allocation plan and allocated \$750,000 to the First



Time Homebuyer's Assistance HOME Program Plan. On February 22, 1993 (Report No. 93-044), the Housing Commission approved a revision to the Shared Equity Program. On June 1, 2001 (Report No. 01-052), the Housing Commission approved modifications to the FTHB Programs.

Future Related Actions: If recommended, the proposed revisions will be presented to the Housing Authority for consideration at its next available meeting.

BACKGROUND

The San Diego Housing Commission has operated a successful FTHB Program since 1992. The FTHB Program is made up of three different programs: 1) Second Trust Deed Loan Programs; 2) Down Payment Program; and 3) Mortgage Credit Certificate Program. The Housing Commission administers several second trust deed loan programs including CalHome First Time Homebuyer Mortgage Assistance, Shared Equity Loans and Centre City Development Corporation's Downtown First Time Homebuyers Program. An Overview of the Shared Equity Loan Program and Down Payment Program that are the focus of this report are described in Attachment 1.

In September 1993, the Housing Commission funded its first shared equity loan under the FTHB Program. Since that time, 915 families have realized their dream of homeownership. Since the program was established in 1992, there have only been two modifications to the program. The first change allowed a greater equity percentage to the homebuyer and forgave the shared equity provision after 15 years. The overall terms and conditions of the FTHB Program were not adjusted with the changing market conditions because, each year since it was established, all available funds were quickly committed within specified time limits. However, in 2001, staff observed a shortage of shared equity loan packages being submitted by the lenders. A survey of the participating lenders revealed there was high demand for shared equity loans; however, the potential buyers were unable to find a qualifying property. The lenders indicated that there were few properties on the market and those on the market were too expensive for their buyers. Based on this information and other data presented, the Housing Authority approved the second modification to the program guidelines in July 2001 that increased the loan limit from \$25,000 to \$40,000 or 25 percent (up from 20 percent) of the purchase price, whichever is less. Within seven months of receiving authorization to increase the shared equity loan amount, all funds allocated to the program for fiscal year 2002 were expended.

The expectation was that the increased shared equity loan amount would be sufficient to enable lower income families to purchase homes in the City of San Diego. However, the escalating housing prices over the past year and the limited housing stock has made homeownership out of reach for most lower income families. In September 2002, HOME funds became available for the Shared Equity Loan Program. Once again, staff noticed a shortage of loan packages being submitted by the lenders. A survey of our participating lenders indicates a continued interest in the program. The survey found that 48 shared equity loans were in the pipeline as of October 30, 2002; however, only three of the potential buyers were able to find an affordable property.

DISCUSSION

The terms and conditions under which assistance was provided to eligible First Time homebuyers virtually remained as originally developed in 1992 until the loan limit was increased in 2001. Sound business practices dictate that programs are reviewed and, if needed, refined periodically to ensure their continued effectiveness. There have been significant changes in the housing market that have created the need to revise the Shared Equity Loan Program and Down Payment Program.

Following a review of the current terms and conditions of the existing FTHB Programs, the lender survey and current housing market, staff is recommending that the Shared Equity Loan Program and the Down Payment Program be modified as described below.

Shared Equity Loan Program

To provide eligible low income families a better chance to purchase their first home, it is recommended that the amount of the second trust deed loan be modified from a maximum of \$40,000 or 25 percent of the purchase price, whichever is less, to 25 percent of the maximum purchase price or appraised value, as established by HUD (currently \$261,609).

Down Payment/Closing Cost Assistance Grant Program

To further facilitate home purchases by program participants, it is recommended the down payment/closing cost assistance grants be adjusted to the lesser of \$7,500 (up from \$5,000) or four percent of the purchase price. The four percent assistance will be comprised of two percent for the down payment with the balance being used for closing cost assistance. As an example: purchase price \$261,609 x 4 percent = \$10,464. The 4 percent exceeds the \$7,500 maximum grant amount; therefore the borrower would receive the lesser amount of \$7,500. Two percent of our grant is to be used for the down payment (purchase price \$261,609 x 2 percent = \$5,232). The Housing Commission's grant of \$7,500 would be deposited into

escrow with instructions to use \$5,232 towards the down payment and the balance of \$2,268 (\$7,500 - \$5,232 = \$2,268) towards closing costs.

ALTERNATIVES

- 1) Do not increase the maximum amount for shared equity loans or down payment/closing cost assistance grants.
- 2) Approve an increase to the Shared Equity Loan Program that is similar to the existing program; such as 30 percent (up from 25 percent) of the purchase price or a maximum of \$60,000 (up from \$40,000), whichever is less.

Respectfully submitted,

Signature on File with Original Document

Jack D. Farris
Housing Finance & Development Manager

Approved by,

Signature on File with Original Document

Elizabeth C. Morris
Chief Executive Officer

Monce (FTHB 2002.HC) 578-7491

- Attachments:
- 1 – Shared Equity Loan and Down Payment/Closing Cost Assistance Grant Program Description
 - 2 – Survey of Lenders
 - 3 – Housing for Sale in the City of San Diego
 - 4 – Summary of Shared Equity Loans Funded
 - 5 – Comparison of Existing to Proposed Modifications to the First Time Homebuyer Program