



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: January 7, 2022

HCR22-008

SUBJECT: Proposed Revisions to the First-Time Homebuyer Program

COUNCIL DISTRICT(S): Citywide

ORIGINATING DEPARTMENT: Real Estate Division

CONTACT/PHONE NUMBER: Sujata Raman (619) 578-7406

REQUESTED ACTION:

Authorize the proposed revisions to the First-Time Homebuyer Program (FTHB) as outlined within this report.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The First-Time Homebuyer Program that the San Diego Housing Commission (Housing Commission) operates for the City of San Diego has provided assistance totaling more than \$190.8 million to help more than 5,900 homebuyers with low-to-moderate income purchase their first home in the City of San Diego since 1992.
- Over the years, Housing Commission staff have continuously monitored the program and responded to market changes to ensure the program continues to serve the target population effectively.
- The Housing Authority of the City of San Diego on August 8, 2006, delegated authority to the Housing Commission Board of Commissioners to make future revisions to the First-Time Homebuyer Program (Resolution No. HA-1314; Report No. HCR06-021).
- The extraordinarily high price of homes, limited inventory, and investors operating in the San Diego market have made it extremely competitive and very difficult for first-time homebuyers to purchase a home with the current 17 percent deferred-payment loan the First-Time Homebuyer Program offers.
- Staff recommends modifying the deferred-payment loan program to provide a range of assistance between 17 percent and 22 percent of the sales price based on the applicant's *need*.
- The proposed change would increase the buyer's purchasing power.
- With this proposed change, staff anticipates that the Housing Commission would be able to help approximately 70-75 low-income households purchase a home in San Diego during Fiscal Year 2022.
- The staff-recommended actions will not change the Housing Authority-approved Fiscal Year 2022 budget for the City of San Diego First-Time Homebuyer Program that the Housing Commission administers.



REPORT

DATE ISSUED: December 29, 2021

REPORT NO: HCR22-008

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of January 7, 2022

SUBJECT: Proposed Revisions to the First-Time Homebuyer Program

COUNCIL DISTRICT: Citywide

REQUESTED ACTION

Authorize the proposed revisions to the First-Time Homebuyer Program (FTHB) as outlined within this report.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) take the following actions:

- 1) Approve a modification to the City of San Diego First-Time Homebuyer Program's Deferred Loan Program to provide a deferred-payment, second trust deed loan of 17 percent to 22 percent of the purchase price based on the applicant's verified need, with the interest rate set at 3 percent.
- 2) Authorize the President & Chief Executive Officer (President & CEO), or designee, to execute all documents and instruments that are necessary and/or appropriate to implement these approvals, in a form and format approved by General Counsel, and to take such actions necessary and/or appropriate to implement these approvals.

SUMMARY

The Housing Commission has operated a First-Time Homebuyer Program for the City of San Diego since 1992 to help low- and moderate-income San Diegans achieve home ownership. Since its inception, the Housing Commission has provided assistance totaling more than \$190.8 million to help more than 5,900 homebuyers with low-to-moderate income purchase their first home in the City of San Diego. Over the years, Housing Commission staff have continuously monitored the program and responded to market changes to ensure the program continues to serve the target population effectively. On August 8, 2006, the Housing Authority of the City of San Diego (Housing Authority) delegated authority to the Housing Commission Board of Commissioners to make future revisions to the First-Time Homebuyer Program (Resolution No. HA-1314; Report No. HCR06-021). The current program provides a deferred down-payment loan of up to 17 percent of the purchase price, with the borrower contributing 3 percent of their own funds toward the down payment.

According to the California Association of Realtors, as of August 2021, the median price of a single-family home in San Diego was \$835,000, an increase of 14 percent compared to the same time in 2020. On November 30, 2021, the *San Diego Union-Tribune* reported that the S&P CoreLogic Case-Shiller Indices identified a 25 percent home price gain in a year in the San Diego metropolitan area. The extraordinarily high price of homes, limited inventory, and investors operating in the San Diego market

have made it extremely competitive and very difficult for first-time homebuyers to purchase a home with the current 17 percent deferred-payment loan the First-Time Homebuyer Program offers.

To continue to assist individuals and families in purchasing their first home, staff recommends modifying the deferred-payment loan program to provide a range of assistance between 17 percent and 22 percent of the sales price based on the applicant's *need*. This change is consistent with previous actions the Housing Commission has taken in response to changing market conditions. With this proposed change, staff anticipates that the Housing Commission would be able to help approximately 70-75 low-income households purchase a home in San Diego during Fiscal Year 2022.

Below is an example of how an increase in a deferred-payment loan from 17 percent to 22 percent affects the purchase price for a household of three with an annual income of \$87,000 which is approximately 80 percent of San Diego's Area Median Income. In this example, with the increase in assistance, this buyer's purchasing power increases by \$33,000.

Purchase with a 17 percent deferred-payment loan

\$632,000	<i>Purchase Price</i>
	Housing Commission Deferred-Payment Loan
-\$107,440	(17% of Purchase Price)
-\$18,960	Minimum 3% Buyer's Down Payment
\$505,600	First Trust Deed Loan Amount
3.250 percent	Interest Rate on First Trust Deed Loan
30	Term
\$2,200.40	Principal & Interest Payment
\$658.33	Property Taxes
\$100.00	Hazard Insurance
\$2,958.74	Total Housing Payment
Debt to Income Ratio	
Housing	40.81%
Total	44.95%

Purchase with a 22 percent deferred-payment loan

\$665,000	<i>Purchase Price</i>
	Housing Commission Deferred-Payment Loan
-\$146,300	(22% of Purchase Price)
-\$19,950	Minimum 3% Buyer's Down Payment
\$498,750	First Trust Deed Loan Amount
3.250 percent	Interest Rate on First Trust Deed Loan
30	Term
\$2,170.59	Principal & Interest Payment
\$692.71	Property Taxes
\$100.00	Hazard Insurance
\$2,963.30	Total Housing Payment
Debt to Income Ratio	

Housing	40.87%
Total	45.01%

FISCAL CONSIDERATIONS:

The staff-recommended actions will not change the Housing Authority-approved Fiscal Year 2022 budget for the City of San Diego First-Time Homebuyer Program that the Housing Commission administers.

PREVIOUS COUNCIL and/or COMMITTEE ACTION

Previous Council and/or Committee Actions are detailed in Attachment 1.

ENVIRONMENTAL REVIEW:

This activity is not a project pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. This action seeks to authorize a change in subsidy under the First-Time Homebuyer Program, which will not cause a significant environmental impact on its own accord. As such, this activity is not subject to CEQA pursuant to CEQA guidelines Section 15060(c)(3) and is not appealable. Processing under the National Environmental Policy Act is not required as no federal funds are involved in the action to authorize a change in subsidy under the First-Time Homebuyer Program. The provision of any federal funds for any loans as the result of this action is conditioned on the City of San Diego’s final NEPA review and approval for each of the loans/properties.

Respectfully submitted,

Sujata Raman

Sujata Raman
Vice President, Single-family Housing Finance
Real Estate Division

Approved by,

Jeff Davis

Jeff Davis
Deputy Chief Executive Officer
San Diego Housing Commission

Docket materials are available in the in the “Governance & Legislative Affairs” section of the San Diego Housing Commission website at www.sdhc.org.

ATTACHMENT 1

PREVIOUS COUNCIL and/or COMMITTEE ACTION / FIRST-TIME HOMEBUYER PROGRAM TIMELINE

- April 6, 1992 (HCR92-093) Silent second trust deed loans were created under a Home Buyer's Program to help low-income households (80 percent or less of San Diego's Area Median Income [AMI]) qualify for homeownership using federal HOME Investment Partnerships Program (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 loans for buyers earning 80 percent or less of AMI was approved using City of San Diego 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.)

A Recoverable Grant Program was developed to assist buyers with income up to 100 percent of AMI using City of San Diego Housing Trust Funds. Grant amounts were limited to 2 percent of the purchase price up to \$5,000. The grant would be recovered if the family sold the home within six years.

- July 20, 1992 (HCR92-196) 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 percent in year one, with 80 percent to the Housing Commission. Beginning in year two, the buyer's equity increased, as the Housing Commission's decreased, by 1 percent per year. (No loans were funded under this program description.)
- February 22, 1993 (HCR93-044) Shared equity provision was amended to a 50 percent to 50 percent 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 percent of the purchase price or \$25,000, whichever was less.

- June 1, 2001 (Housing Commission Board Action) and July 17, 2001 (Housing Authority Action) Report No. HCR01-052; Resolution No. HA-1115: Shared equity loan amount was increased to 25 percent of the purchase price or \$40,000, whichever was less.

Down Payment Assistance Grants were increased to the lesser of \$5,000 or 4 percent of the purchase price.

- November 15, 2002 (Housing Commission Board Action) and November 29, 2002 (Housing Authority Action) Report No. HCR02-097; Resolution No. HA-1175: Shared equity loan amount was amended to 25 percent of the purchase price. A specific dollar amount was eliminated.

Down Payment/Closing Cost Assistance Grant was increased to the lesser of \$7,500 or 4 percent of the purchase price.

- May 14, 2004 (Housing Commission Board Action) and June 15, 2004 (Housing Authority Action) Report No. HCR04-040; Resolution No. HA-1240: Shared equity loan program was created to assist tenants affected by condominium conversions. The loan terms for buyers with income at or below 80 percent of AMI mirrored the existing silent second loan program. A new program was added to assist buyers with income up to 100 percent of AMI with the loan not to exceed \$15,000.
- May 6, 2005 (Housing Commission Board Action) and May 10, 2005 (Housing Authority Action) Report No. HCR05-034; Resolution No. HA-1269: Shared Equity Loan Program and Condominium Conversion 80 Percent AMI Loan Program were revised to a 30-year shared appreciation loan program.

The down payment/closing cost assistance grant was modified into a two-tiered program: a) for households with income at or below 100 of AMI, the lesser of \$10,000 or 4 percent of the purchase price; and b) for household with income at or below 80 percent of AMI, the lesser of \$15,000 or 6 percent of the purchase price. During the SDHC Board meeting, the Chair requested the guidelines be revised to cap the loan origination fee at 1.5 points.

- March 3, 2006 (Housing Commission Board Action) and August 8, 2006 (Housing Authority Action) Report No. HCR06-021; Resolution No. HA-1314: A two-tiered, 3 percent interest, deferred-payment loan program was created to assist buyers purchasing affordability-restricted units. The first tier assists buyers earning 80 percent or less of AMI with a second trust deed loan not to exceed 25 percent of the purchase price. The second tier helps buyers earning up to 100 percent of AMI with a second trust deed loan up to 15 percent of the purchase price. In addition, the Condominium Conversion 100 Percent AMI Loan Program was revised to a maximum loan amount of 15 percent of the purchase price and the shared appreciation provision was extended to 30 years.

- August 8, 2006 (Resolution No. HA-1314; Report No. HCR06-021) Housing Authority delegated authority to Housing Commission Board to make future revisions to the First-Time Homebuyer Programs.
- July 9, 2008 (HCR08-065) Loan terms were modified from shared appreciation to a 3% interest, deferred-payment loan.
- March 20, 2009 (HCR09-030) Workshop - Neighborhood Stabilization Program First-Time Homebuyer Program. Direction was given to amend citywide first-time homebuyer loan terms from 3 percent interest, deferred payments to shared appreciation and reduce loan amount from 25 percent to 17 percent of the purchase price.
- September 16, 2011 (HCR11-113) Housing Commission Board approved modifying loan terms for the deferred second loan program from shared appreciation to a 3 percent simple interest, deferred-payment loan; increasing the amount of deferred second loans for the Affordable For-Sale Housing Program 100 Percent AMI from 15 percent to 17 percent of the affordable prices; and revising the program guidelines for the Closing Cost Assistance Grant to allow up to one discount point to be paid by the buyer to lower the interest rate on the first trust deed loan.
- August 1, 2014 (HCR14-056) Informational Report - The Closing Cost Assistance Recoverable Grant Program (CCAG) was changed to a Homeownership Grant, forgiven at escrow closing; a down payment and closing cost grant of 6 percent of the purchase price up to \$20,000 was implemented for households earning up to 100 percent of AMI; First-Time Homebuyer Program guidelines were modified to allow the up-front mortgage insurance premium for Federal Housing Administration (FHA) loans and the funding fee for Veterans Affairs (VA) loans to be financed in the first trust deed loan.