

LAND USE & HOUSING REPORT

DATE ISSUED: August 18, 2009 **REPORT NO:** LUH 09-007

ATTENTION: Chair and Members of the Land Use & Housing Committee
For the Agenda of September 2, 2009

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

REQUESTED ACTION:

1. Recommend City Council approval of the proposed Substantial Amendment to the Consolidated Plan 2009 Action Plan (Substantial Amendment, Attachment 1) for submission to the Department of Housing and Urban Development (HUD); and
2. Recommend Housing Authority approval of a Fiscal 2010 Budget Revision.

STAFF RECOMMENDATION:

1. Approve the proposed Substantial Amendment for submission to HUD to allow the San Diego Housing Commission (Housing Commission) to purchase and rehabilitate abandoned and foreclosed residential properties for resale to eligible first time buyers, or to rent to eligible renters; and
2. Approve a revision (Attachment 2) 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 (CEO) to revise the budget to include program income as it is received for NSP activities.

SUMMARY:

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 (City) was awarded \$9,442,370.

On November 18, 2008, the City Council approved a substantial amendment to the to the Consolidated Plan 2009 Action Plan which detailed NSP program activities to be administered by the Housing Commission, on behalf of the City. Program activity included financing for first time homebuyers to ensure affordability (silent second and rehabilitation loan package). 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

August 18, 2009

Proposed Revisions to the Neighborhood Stabilization Program and Budget Revision

Page 2

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 Housing Commission 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 Housing Commission acquisition funds plus a rehabilitation loan.

Bank of America (BofA) 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 \$451,250, currently the maximum allowed purchase price. (At its last Board meeting on August 21, 2009, the Housing Commission approved increasing the maximum purchase price to \$451,250 from \$300,000 to be consistent with HUD's safe harbor limit for the city-wide first time homebuyer second loan program.) 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 buyer has made 25 offers and has been out bid each time.

BofA's original intent was that the Housing Commission purchase the properties from the list. However, Housing Commission 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, it would have the opportunity to purchase prior to listing. As well, the properties will be available below the listed price if the Housing Commission uses BofA real estate agents. This will save BofA money and the bank will pass the savings onto the Commission.

Staff is proposing a revision to the NSP plan, the substantial amendment, 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. Attachment 3 is a summary of the process that the Housing Commission would use to purchase and rehabilitate the foreclosed properties and resell to eligible buyers. The Housing Commission may rent a portion of the homes to comply with the program's requirement that at least 25 percent of the funds benefit households at 50 percent area medium income (\$41,300 for a family of four) and below.

August 18, 2009

Proposed Revisions to the Neighborhood Stabilization Program and Budget Revision

Page 3

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 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:

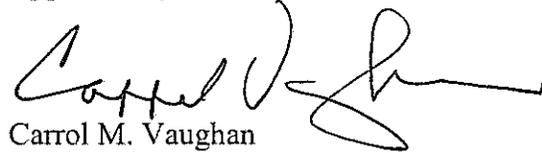
This activity is not a project within the meaning of the California Environmental Quality Act (CEQA) pursuant to Section 15060 (c)(3) of the State CEQA guidelines. This activity is also exempt from review under the National Environmental Policy Act per 24.CFR 58.34(a)(3).

Respectfully submitted,



Cissy Fisher
Vice President, Special Housing Initiatives

Approved by,



Carrol M. Vaughan
Executive Vice President &
Chief Operating Officer

- Attachments:
1. Substantial Amendment to the City of San Diego's Consolidated Plan 2009 Action Plan
 2. Budget Amendment
 3. Summary Housing Commission Purchase and Resale



William Vasquez
Director, Office of Community Planning & Development
U.S. Department of Housing & Urban Development
611 W. 6th Street, Suite 800
Los Angeles CA 90017

RE: Neighborhood Stabilization Program Substantial Amendment to the City of San Diego's Consolidated Plan 2009 Action Plan

Dear Mr. Vasquez:

Please accept this Substantial Amendment to the City of San Diego's (City) Consolidated Plan 2009 Action Plan. San Diego Housing Commission (Housing Commission) is proposing two revisions to the Neighborhood Stabilization Program (NSP) Substantial Amendment (attached).

Eligible first time homebuyers are having a very difficult time purchasing homes due to the limited inventory and multiple offers on the properties. As such, the Housing Commission is proposing to amend the primary focus to include the Housing Commission's ability to directly purchase foreclosed or abandoned properties from banks, FNMA or any other sources available.

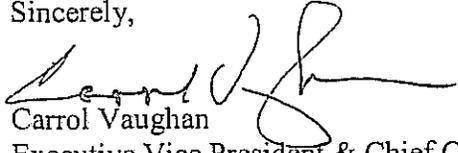
The Housing Commission will acquire the properties in bulk to get first priority from the banks, then offer them for sale to NSP eligible first time homebuyers. The Housing Commission has created partnerships with banks and FNMA to receive preference to purchase Real Estate Owned (REO) homes prior to being listed with an agent at a discounted price and not compete with the market or investors. The Housing Commission will prioritize the use of the NSP funds by first targeting the acquisition of foreclosed units in neighborhoods with the highest concentration of subprime mortgage loans and at the highest risk of additional foreclosures, as evidenced through HUD-provided data and the City's data on foreclosures. 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, thereby creating a revolving source of funding.

The Housing Commission also proposes to amend the Acquisition/Rehabilitation and Rental for Low Income Tenants activity. The Housing Commission proposes to expand eligible acquisition from single family residences to include blighted residential properties. Additionally, the Housing Commission proposes that acquired rehabilitated rental units may be offered to eligible individuals and families for purchase or be held in rental housing inventory to remain affordable to 50% Area Median Income and below.

This proposed Substantial Amendment is available at the City and the Housing Commission locations and websites. Three public hearings are scheduled to include the Housing Commission, City's Land Use and Housing Committee and City Council for final approval.

Should you have any questions regarding the proposed substantial amendment, please contact me at 619-578-7532 or at carrolv@sdhc.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Carrol Vaughan", written over a horizontal line.

Carrol Vaughan
Executive Vice President & Chief Operating Officer

Attachment 2
Budget Amendment

| Homeownership (Org 347) | <u>Current</u> | <u>Proposed</u> | <u>Difference</u> |
|---------------------------------------------|-----------------------|------------------------|--------------------------|
| <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 3

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.