



**Centre City
Development
Corporation**

REPORT NO.: CCDC-07-46

DATE ISSUED: October 30, 2007

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of November 13, 2007

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Additional Funding for the Downtown First-Time Homebuyer
Program - Areawide

COUNCIL DISTRICTS: Districts 2 and 8

REFERENCE: None

STAFF CONTACT: A.J. Magana, Accountant/Financial Analyst, 619-533-7125

REQUESTED ACTION: That the Redevelopment Agency (“Agency”) authorize an additional \$1,200,000 for the Downtown First-Time Homebuyer Program (“Program”).

STAFF RECOMMENDATION: That the Agency authorize an additional expenditure of \$1,200,000 to fund the Program for the 25 affordable units at the Smart Corner condominium project.

SUMMARY: The Program provides financing in the form of a second trust deed loan to assist moderate-income, first-time homebuyers to purchase their primary residence in downtown. Qualified buyers can obtain a maximum \$75,000, 30-year, zero-interest loan with no payments for the first five years. Per the Disposition and Development Agreement for the Smart Corner project (“DDA”), the Developer is required to reserve 25 affordable units at the project for First Time Homebuyers eligible for the Program. If the Agency does not fund the Program, the Developer is relieved of the obligation to reserve the 25 affordable units at the project. To fulfill this requirement, staff requests an additional appropriation of \$1,200,000 for the Program. Currently, there is approximately \$662,000 in the fund. After working closely with the San Diego Housing Commission, it is understood that not all of the 25 buyers will be requesting assistance from the FTHB and \$1,200,000 will be enough to carry out the Agency’s obligation.

FISCAL CONSIDERATIONS: A total of \$1,200,000 is available in the Fiscal Year 2008 Centre City Low- and Moderate-Income Housing Fund. The total estimated funds committed to Smart Corner for these loans are \$1,862,000.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: The Centre City Development Corporation is scheduled to hear this item at its October 17, 2007 meeting.

BACKGROUND: The Program was created in 2002 by the Corporation to assist persons and families of moderate income to purchase their primary residence downtown. An initial allocation of \$1,000,000 was provided for the Program. The San Diego Housing Commission ("SDHC") is the administrator of the Program and performs activities including underwriting, loan administration and monitoring of the units, per the Cooperation Agreement executed between the Agency and SDHC on August 28, 2002.

From its inception, a total of four loans have been issued by the SDHC totaling \$300,000, plus an additional set-up fee of \$25,000 and \$13,000 in administration fees. From the initial allocation, there is approximately \$662,000 remaining in the fund. One of the loans has been paid in full and the Agency's share of appreciation, \$62,608, was deposited back into the Low- and Moderate-Income Housing Fund, in addition to the principal balance of \$75,000.

Terms and conditions of the Program are as follows:

- Loan Terms:
 - Thirty-year, zero-interest second trust deed up to \$75,000;
 - No payments for the first five years;
 - Level monthly principal payments commence in year six;
 - Agency shares appreciation upon sale for a period of 45 years;
 - Loan is not assumable;
 - First trust deed secured through an approved lender; and
 - Refinancing of first trust deed is allowed with no cash out.

- Loan Proceeds:
 - All loan proceeds, including the Agency's share of appreciation, must be deposited in the Low- and Moderate-Income Housing Set-Aside Fund.

- Occupancy:
 - Owner-occupied properties only; and
 - Occupancy to be monitored for a period of 45 years.

- Eligible Borrowers:
 - Household income at or below 120 percent of area median;
 - First-time homebuyers (defined as: persons in the same household who have not owned property as a primary residence within the last three years);
 - No other real property holdings;
 - Must provide a minimum down payment of three percent of total purchase price plus closing costs; and

- Cash and cash equivalent of assets may not exceed \$75,000, excluding qualified retirement accounts.

- Upon Sale:

- Loan will be due. No resale or price restrictions or income restrictions on the new buyer, however, a new buyer could qualify and participate in the Program; and
- The Agency shares in appreciation (defined as the difference between the original purchase price and the new sales price or appraised value, whichever is higher). The Agency's percentage of the appreciation is derived by dividing the original Agency loan amount by the original sales price. The Agency's percentage of the appreciation is reduced 50 percent after 30 years.

DISCUSSION:

Project Description: The DDA project requires the developer to designate 25 units for households that qualify for the Program. Due to this requirement, the Agency is obligated to provide up to 25 Program loans to qualified buyers for the Smart Corner project. However, the remaining Program funds (\$662,000) will not be sufficient to cover the loan proceeds anticipated to be requested by the buyers of the Program units. An additional \$1,200,000 is needed for the Agency to provide up to 25 loans (up to \$75,000 per loan) and pay administration fees to SDHC (\$4,500 per loan).

Since its inception in 2002, the Corporation has only closed four loans. This is partly due to the Program's restriction on the properties' sales prices and, in recent years, downtown has had few units within the affordable sales price range. The Program is funded by the Low- and Moderate-Income Housing Fund, and therefore, is subject to the laws and regulations of the California Redevelopment Law. The regulations require the total housing cost for a borrower (including mortgage, Home Owner Association fees, property tax, insurance and utility cost) not to exceed 35% of the 110% of Area Median Income. Due to this requirement, the Corporation could only provide loans for properties priced below the mid-\$200 thousands. It has been extremely difficult for a buyer to find a property in this price range in Downtown San Diego.

Staff is currently conducting research on possible solutions to problems with the Program and plans to provide recommendations on revising the Program in the near future. The research includes a review of how other cities handle their first-time homebuyer programs.

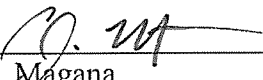
Project Financing: The remaining Program funds of \$662,000 and the requested additional funds of \$1,200,000 (a total of \$1,862,000) will only be sufficient to cover the Agency's commitment for the 25 FTHB units. The Corporation is not accepting new applications from non-Smart Corner buyers at this point. When staff presents recommendations on the Program in the future, additional funding may be requested to continue the Program.

Project Benefits: The Program provides financing to assist moderate-income, first-time homebuyers to purchase their primary residence in downtown. Qualified buyers can obtain a maximum \$75,000, 30-year, zero-interest loan with no payments for the first five years

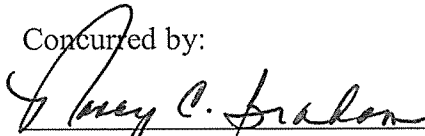
Environmental Impact: This activity is not a project for CEQA purposes because it does not meet the criteria set forth in CEQA Guidelines section 15378. Therefore, pursuant to CEQA Guidelines section 15060(c)(3), the activity is not subject to CEQA.

CONCLUSION: The proposed additional funding to the First-Time Homebuyer Program in the amount of \$1,200,000, will provide up to 25 loans for eligible buyers for the Smart Corner Condominium project in the amount of \$75,000 each. This is consistent with the DDA contractual obligation. Staff recommends approval of the proposed adjustments.


Respectfully submitted,



A.J. Magana
Accountant/Financial Analyst

Concurred by:


Nancy C. Graham
President



Eri Kameyama
Associate Project Manager