CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK

2006 JUN 15 PM 5:54

TO: Office of the City Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: June 27, 2006

RE: **A Request For The City Council/Agency To Provide Direction Regarding Recommendations On Policy Changes For The Affordable Homeownership Development Program: (1) To Increase The Subsidy Amount From 40% To 50% Of The Total Development Cost Of The Affordable Units And (2) To Increase The Target Income Level From An Average Of 100% To 120% Of Area Median Income**

SUMMARY

This report is in response to concerns raised by the City Council Community and Economic Development ("CED") Committee and City Council about the under-utilization of the City's affordable homeownership development program. This report provides an analysis of the limitations or challenges of the current affordable homeownership development program that have come to light over the last year and a half and recommendations on how to address those limitations or constraints and improve the program. Staff is recommending that City Council consider increasing the amount of subsidy provided from 40% to 50% of total development cost (TDC) of the affordable units and increasing the target income limit to 120% of Area Median Income for ownership development projects.

FISCAL IMPACT

As this is a request for City Council direction regarding recommendations on housing policies affecting the AHDP, there are no immediate fiscal impacts. The program that would be affected by these policies uses existing Low and Moderate Income Housing Set-Aside Funds (Low/Mod Housing Funds) and HOME funds. No change in appropriation is required. The proposed increase in the amount of subsidy, from 40% to 50% of the total development cost of the affordable units, will result in a reduction in the overall number of rental and ownership units that could be funded but would make more affordable homeownership projects feasible. This would then result in expending more funds for ownership projects and moving the City's Notice of Funding Availability for Affordable Rental and Ownership Housing (NOFA) allocations closer to the City Council's goal of 50% of Low/Mod Housing Funds targeted to ownership projects.

BACKGROUND

Supporting the development of housing in Oakland, including affordable housing, is an objective of City Council Goal Number 2 (Build Community and Foster Livable Neighborhoods), Objective 2B (Facilitate the development of housing for all incomes), for Fiscal Year 2005-07. Over the past 9 to 10 years, an increasing amount of attention has been devoted to affordable homeownership as part of the City's affordable housing programs. **Attachment A** provides a brief summary of previous reports presented to City Council on homeownership issues.

Comments and recommendations are provided in this report to assist the City Council in clarifying the goals and policies needed to produce an effective affordable homeownership development program that address the needs of developers and buyers as well as the City. Staff is recommending that the City Council adopt these changes now to ensure that the NOFA scheduled to be published in early September 2006 will reflect the City's priorities and policies with respect to new affordable homeownership development projects.

KEY ISSUES AND IMPACTS

Homeownership Programs in Context

Staff has prepared a number of attachments that present information about various homeownership options, how they address different City housing policies and objectives, and the impact of these options on various benefits of homeownership.

- **Attachment B** provides a chart showing typical households income limits for various affordable housing options. Some are addressed by ownership programs, others by homeless and rental programs.
- **Attachment C** shows numerous ownership opportunities for low and moderate income homebuyers. These include ownership programs that don't involve the City. This attachment provides a comparison of policy objectives for these various ownership program types.
- **Attachment D** provides a chart comparing three different homeownership programs options in terms of the different objectives each addresses.
- **Attachment E** looks at the varying mixes of benefits that the homebuyer receives depending on the program they use.
- **Attachment F** provides more details on the City's current first time homebuyer programs and some of the limitations or challenges with that program.
- **Attachment G** provides more details on the Affordable Homeownership Development Program (AHDP), in particular in regard to determining the affordable housing cost and the affordable sales price.

Effect of State Redevelopment Law on Homeownership Programs

Several provisions of State redevelopment law affect low and moderate income housing in general and the AHDP in particular.

- A proportionality requirement on expenditure of Low/Mod housing funds. Expenditures by income group must be proportional to the City's Regional Housing Need Allocation (RHNA) proportions as contained in the Housing Element. Currently Oakland may not expend more than 38% of its Low/Mod Funds on moderate income housing, averaged over a ten year period.

- Affordable Sales Prices based on Affordable Housing Cost. New affordable homeownership units must have an affordable housing cost (AHC) as defined by State redevelopment law. The affordable housing cost includes principal and interest on a first mortgage, property taxes, hazard insurance, private mortgage insurance, utilities, an allowance for maintenance, and homeowners' association dues (if required). The Affordable Sales Price is the price at which a household at the target income level would have a monthly housing cost within the AHC limit. For example, the maximum affordable sales price for a unit sold to a 4 person household earning 100% of Area Median Income would be $222,511 based on an affordable housing cost of $2,200 per month (using a 7% interest rate and 2006 income limits). The *maximum affordable sales price for a unit sold to a 4 person household earning 120% of* Area Median Income would be $283,387 based on an affordable housing cost of $2,689 per month.

- Long Term Affordability Restrictions. Affordability restrictions for new developments must stay in effect for a minimum of 45 years. During that period, assisted homebuyers may only sell the unit to a qualified low or moderate income buyer, using an affordable sales price as defined above. Because the sales prices are based in part on changes in the median income, the price is likely to increase by only a few percentage points each year, resulting in appreciation much lower than market rate units.

Limitations of Current Affordable Homeownership Development Program Guidelines

- Increasing costs. In recent years, development costs have risen much faster than incomes. The City Council has previously approved increases in the target income level for homeownership projects, first from 80% to 100% of Area Median Income, then from a target income level of 100% to an average income level of 100% of Area Median Income for all assisted units in a project. However, costs have continued to increase to the point that projects are infeasible within the City's current subsidy limit of 40% of TDC and target income limit.

- Limited ability to leverage resources. It is difficult to leverage the outside resources necessary to pay the subsidy for ownership units because of the affordability restrictions required by state redevelopment law. In addition, there are fewer resources available for ownership projects than are available for rental projects. In addition, most lenders require that the affordability restrictions be subordinated to their deeds of trust even though the City would lose those restrictions completely if the lender forecloses on the unit.

PROPOSED CHANGES TO THE AHDP

Staff has re-evaluated some of its previous recommendations presented in the July 17, 2005 Agenda Report on policy changes relating to the AHDP. At that July 2005 meeting, Council didn't want to proceed with staff's recommendation to terminate the AHDP with its long term affordability requirement. Over the last 6 months, the Council has approved projects requesting additional subsidy to make them economically feasible. Following its analysis, staff now recommends that the City Council approve the following policy changes effecting the implementation of the AHDP:

1. Increase the maximum subsidy provided by the City for affordable ownership development projects, from 40 percent to 50 percent of the total development cost (TDC) of the affordable units. This increase in subsidy addresses the rapidly escalating costs of development and the lack of other funding sources to help fill the gap between the TDC and the sales proceeds from project units.

2. Increase the target income level for ownership development projects from an average of 100% to 120% of Area Median Income (AMI). This would enable the maximum affordable sales price to be increased by approximately $60,000 per unit yet that sales price would still be affordable to households earning not more than 96% of Area Median Income (See chart on the next page titled "Affordable Housing Cost"). State law defines the affordable sales price for 120% of Area Median Income as total monthly housing costs equal to 35% of 110% of Area Median Income. The affordable sales price for 100% of Area Median Income is set at a total month housing costs equal to 35% of 90% of Area Median Income.

SUSTAINABLE OPPORTUNITIES

In order to incorporate sustainable development principles pursuant to City Council Resolution No. 74678, C.M.S. adopted on December 1, 1998, developers are required to submit a *Sustainability Statement* outlining the economic, environmental, and social equity benefits of their projects. Staff will continue to encourage developers to follow and, when possible, broaden the sustainability plans outlined in their applications for City gap financing.

- **Economic:** Homeownership helps build wealth for low income people; some programs more so than others. New affordable homeownership projects will expand the affordable housing inventory in Oakland and generate construction and professional services contracts.

- **Environmental:** As urban infill projects typically located near mass transit and neighborhood amenities, these developments provide housing that is not dependent on constant use of the automobile and is an alternative to urban sprawl. When low income households use the MAP program to purchase an existing unit, the effect on the environment is similar.

- **Social Equity:** Homeownership has a positive impact on the quality of life for families and for the neighborhood through pride of ownership.

DISABILITY AND SENIOR CITIZEN ACCESS

All housing development projects receiving federal funds are required to construct and set aside unit to be occupied by persons with disabilities (Federal Section 504 regulations). This means that at least 5% of newly constructed units will be available to persons with disabilities. The State's Title 24 and the Americans with Disabilities Act require consideration of persons with disabilities in design and construction of housing. In all rental units and some ownership housing types, those requirements include accessible units and facilities. Furthermore, developers will be required to devise a strategy to effectively market housing units to the disabled community and present this strategy as part of their Affirmative Fair Marketing Plan. The City has incorporated strategies to effectively market housing units to the disabled community and seniors as part of its MAP program.

While the City's homeownership programs are open to seniors, in practice very few first-time homebuyers are seniors.

RECOMMENDATION(S) AND RATIONALE

Staff is recommending two changes to the current AHDP guidelines. The rationale for these changes, and some of the possible consequences, are discussed below.

1. Increase the maximum subsidy provided by the City for affordable ownership development projects, from 40 percent to 50 percent of the total development cost (TDC) of the affordable unit.

   Attachment H shows the impact of increasing the subsidy percent of the total development cost by 10%, from 40% to 50% on an average project at different income levels. For example, on a project targeted to 100% of Area Median Income , the difference between the current subsidy limit and the proposed 50% shows a $677K gap if only 40% is provided and a cushion of $177K if 50% is provided. For a project targeted to 120%, the project would have a cushion of $540K at the current subsidy limit (40%) and would not need to be increased to 50% to be feasible.

2. Increase the target income level for ownership development projects from an average of 100% to 120% of Area Median Income.

   In the past, City Council has been reluctant to provide affordable housing funds for households earning 120% of Area Median Income ($100,500 for a 4 person household). It should be noted that, in practice, units would continue to be purchased and occupied by households with incomes at or below 100% of Area Median Income. Staff's experience with other ownership projects has shown that incomes of actual purchasers are usually well below the target income level. The following table demonstrates this clearly in that the affordable price for a target income level of 120% of Area Median Income according to state law would actually be affordable in the private market to a household making considerably less than 100% of Area Median Income. As noted in a previous section, state law defines affordable sales price for 120% of Area Median Income as total monthly housing costs equal to 35% of 110% of Area Median Income. However, the law includes in the affordable housing cost many items not used by private lenders when underwriting mortgages.

AFFORDABLE HOUSING COST				
Presumed Household Size for Determining Affordability	2 person	3 person	4 person	5 person
Target Income Level at 120% AMI	$80,400	$90,480	$100,560	$108,600
Size of Unit	1 Bdrm	2 Bdrm	3 Bdrm	4 Bdrm
"Affordable" price per Redevelop law	$220,871	$252,440	$283,387	$304,677
Income required by lenders	$64,629	$71,389	$78,016	$82,574
% of AMI	96%	95%	93%	91%
Note: Assuming a $434,534/unit total development cost, 7% interest rate, 5% down, HOA fees of $250/mo. (including hazard insurance), estimated 2006 income limits. All elements of the Affordable Housing Cost (AHC) included per Redevelopment Law. AHC calculated based on 35% of 110%AMI for a target income of 120%AMI.				

Further, staff is recommending that Council approve the two proposed changes with the understanding that some combination of the two would be used, based on the circumstances of the individual project. In practice, it would likely be a blend of the two, with some units at the higher income limit but only needing the currently lower subsidy and other units still targeted at 100% of Area Median Income or less, but receiving the higher subsidy (50%). Developers would be encouraged to provide a percentage of the units at 80% of Area Median Income or below. Staff anticipates that, in practice, no project will need to take full advantage of both, but would only need some blend of the two. The result would be that projects would have a higher income level and a higher subsidy.

Advantages, Disadvantages, and Consequences - Given the above discussion about blending these changes, it seems more appropriate to look at the advantages, disadvantages or consequences in terms of that combination of changes.

The advantages of approving these changes and the flexibility of using a blend of the two are that they would:

- Expand the number of affordable ownership units produced because they make the program more viable.
- Provide more balance between owner and rental activities. The proposed Inclusionary Zoning requirements would also help meet this goal.
- Provide a supply of affordable ownership units for the long term, even if market rates become unaffordable.
- Meet state redevelopment law production requirements.
- Make projects more feasible while still maintaining the subsidy limit at 40% of TDC for some units in a project.
- Make homeownership development projects more feasible and, thus, more affordable housing funds would go to ownership projects.

The disadvantages/implications of approving these changes are that they would:

- Higher subsidies would be required and would mean fewer units would be produced.
- Redirects resources to a higher income level, leaving fewer resources to assist those lower income households most in need and not likely to be able to purchase a unit.

All other issues that have been discussed in previous reports on homeownership development remain. These include:

- Limited opportunity for wealth building. The AHDP works for owners much the same way as a limited equity co-op program. State law defines affordable sales price for 120% of Area Median Income as total monthly housing costs equal to 35%of 110% of Area Median Income. However, the law includes in affordable housing cost many items not used by private lenders when underwriting mortgages.

- Need for more effective homebuyer education. Many buyers have indicated that the restrictions and requirements are too hard to understand or that they don't recall that there are any when they are ready to sell. They are surprised that they will not be able to sell at market and realize the same equity as a market rate seller. However under this program, the homeowner receives only a limited amount of equity, not enough to move up in this current market or to use for college, etc. It is imperative that the City develop a better method of explaining the restrictions and their impact and reinforcing them over the years.

- Impact of Maintenance, Improvements and Refinancing. Clearly it is important to maintain and improve one's property. However, because the sales price is based on a formula dependent mainly on median income levels, improvements to the property have no economic benefit to the owner. This may serve as a disincentive to affordable homebuyers. Likewise, the program limits the amount of cash the homeowner can take out whenever they refinance. If the owner refinances for more than the restricted or affordable sales price, they increase their risk of losing the home. The City is also at greater risk of losing the affordability restrictions and the affordable unit.

- Administering the Program. Affordability controls are more difficult to administer at the initial sale, at resale, and when the homeowner wants to refinance than for homeownership assistance programs. Currently the administration of these aspects of the program and the City's other affordable homeownership programs is being done by Housing staff at considerable cost in time and money. The City could contract with a third party consultant to cover these underwriting responsibilities, monitoring, and homebuyer education and counseling. This could allow for a more focused approach to educating both the developers and the homebuyers regarding the nuances of the program.

ALTERNATIVE RECOMMENDATION(S)

Require Recapture of City Subsidies instead of Long Term Affordability.
Staff also considered whether it should recommend restructuring the AHDP to fund development of new ownership units by structuring City assistance as deferred loans that are recaptured (with 3 – 4 percent interest) when the property is sold, refinanced, or no longer owner-occupied. Affordability restrictions would terminate once the City's subsidy is repaid. This change would make the program easier from an administrative standpoint and make it easier to understand for the buyers and the lenders. However, staff does not recommend this alternative in part because it does not address the redevelopment law production requirement.

Terminate the AHDP and focus on homeownership assistance programs.
The Council could choose to focus on providing homebuyers with the opportunity to accumulate equity and move up in the housing market rather than on the development of new long term affordable units. The assistance programs would not address the redevelopment production requirement. The cost to assist a homebuyer is much lower than to subsidize the development of

a new affordable unit. If the AHDP is terminated, the only new affordable homeownership units produced would be done as a result of the proposed Inclusionary Housing obligation once units are being produced.

Staff does not recommend limiting the City's homeownership programs only to the MAP and like programs. It does not address the production obligation nor does it provide a lower priced option that may be appealing to other segments of the low and moderate income homebuyer population. The MAP type programs limit the eligible income level and, at present, only serve about 50 -75 households a year.

ACTION REQUESTED OF THE CITY COUNCIL

Staff is recommending two policy changes that affect the AHDP guidelines: 1) increase the subsidy amount from 40% to 50% of the total development cost of the affordable units and (2) increase the target income level from an average of 100% to 120% of Area Median Income. Staff requests that the City Council adopt a motion to approve these two recommendations and to authorize staff to incorporate them into the guidelines for the AHDP in time for their inclusion in a new NOFA application to be issued in September 2006.

Respectfully submitted,

DANIEL VANDERPRIEM
Director of Redevelopment, Economic
Development and Housing

Reviewed by:
Sean Rogan, Deputy Director of Housing and
Community Development

Prepared by:
Marge L. Gladman, Housing Development
Coordinator
Housing & Community Development Division

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:

**OFFICE OF THE CITY ADMINISTRATOR
AND THE AGENCY ADMINISTRATOR**

Attachments

ATTACHMENT A

Previous Reports to Council on Homeownership Issues

Since 1998, numerous reports have been presented to the City Council on issues surrounding promotion of homeownership:

- June 1998, the City Council increased the target allocation of housing funds to ownership housing from 45 percent to 50 percent.

- February 2001, the City Council increased the loan limits for the Mortgage Assistance Program (MAP) from $30,000 to $50,000, and kept the income targeting at 80 percent of median income.

- July 2001, the City Council affirmed that the 50/50 allocation of funds spent on ownership and rental was a goal to be achieved over time after a report described how housing funds had been heavily targeted to rental housing.

- June 2002, the City Council approved a staff recommendation to increase targeting for ownership housing development from 80 percent of median income to 100 percent of median income after recognizing that the subsidy required City funding greater than 40 percent of total development costs.

- December 2002, the City Council reaffirmed the City goals of allocating funds equally between rental and ownership housing and prioritizing ownership development projects in areas with low ownership rates, and modified the MAP and Downpayment Assistance Program (DAP).

- March 2004, the City Council approved a recommendation to increase the income limit for homeownership development projects to 120 percent of median income provided that the average affordability was no more than 100 percent of median income.

- February 2005, staff indicated to the City Council that it would return in July 2005 with recommendations and a request for policy direction regarding new ownership housing funding and production.

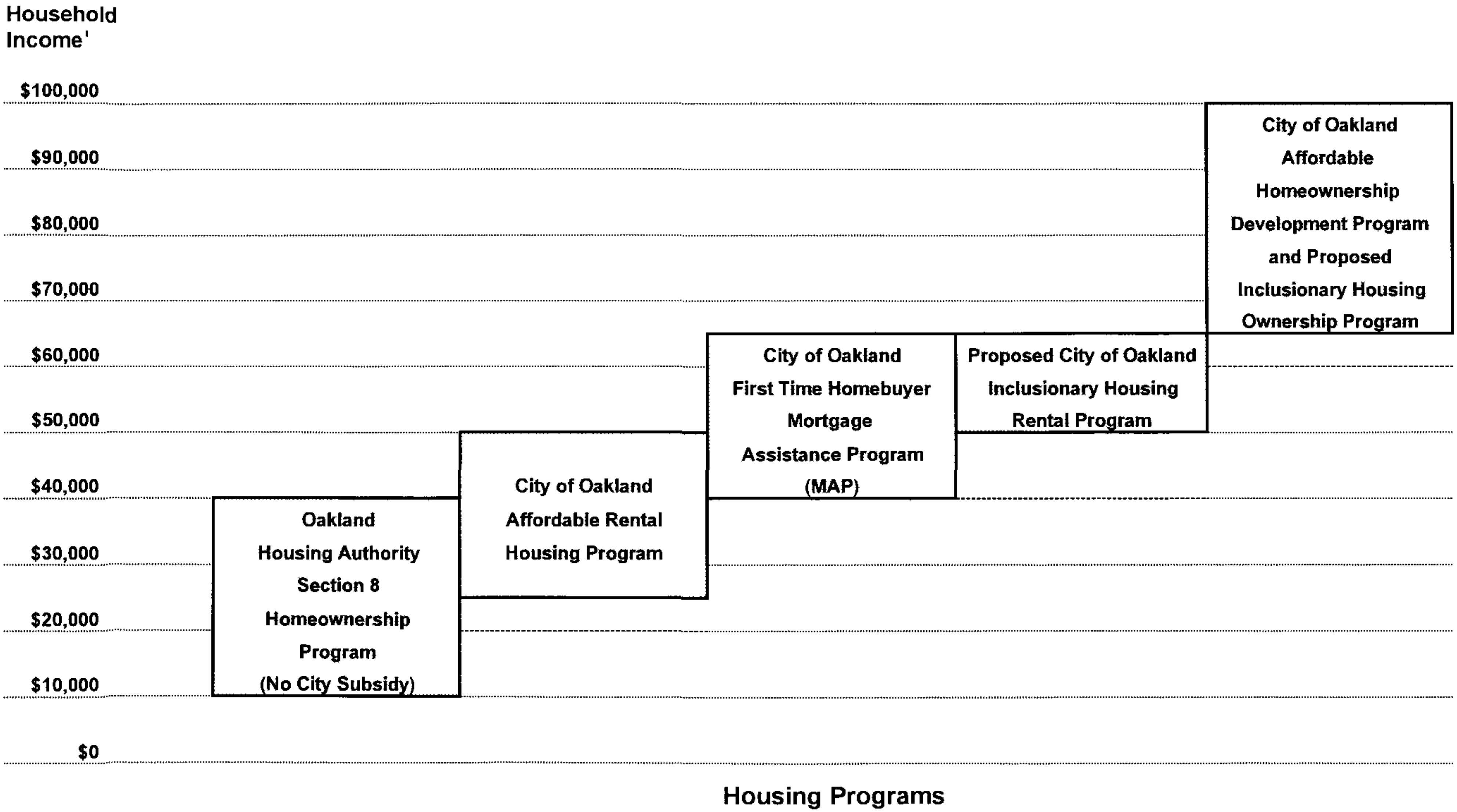
- July 2005, the City Council approved staff recommendations to increase the MAP loan amount to a maximum of $75,000 per borrower and the addition of $1 Million in Low/Mod Housing Funds to the program. The City Council also requested that staff re-examine the Affordable Homeownership Development Program (AHDP) and return with recommendations later in the year.

- July 2005 through January 2006, the City Council authorized one-time modifications to certain ownership development projects in order to attain financial feasibility.

- *March 2006, during NOFA discussions, the City Council asked Housing Development staff to* determine and present specific recommendations to address the problems and improve the success of the AHDP by July 2006.

Building Blocks for Affordable Housing

Typical Household Income Limits for Various City Affordable Housing Programs



Source: Federal, State and City/Agency Housing Program Income Limits, May 2006; Oakland Housing Authority.

1. Typical household income for a family of 4. Graphic representation of household income levels is approximate.

Policy Objectives Addressed by City and Non-City Ownership Housing Programs

	Affordable Ownership						Market
	(1) Affordable Homeownership Development Program (AHDP) (City Subsidy)	(2) Inclusionary Housing Ownership Program (No City Subsidy)	(3) Mortgage Assistance Program (MAP) (City Subsidy)	(4) Section 8 Ownership Program (No City Subsidy)	(5) Limited Equity Co-ops (LEC) (No City Subsidy)	(6) Community Land Trust (CLT) (No City Subsidy)	(7) Market Rate Homeownership (No City Subsidy)
Provides Wealth Building/Equity Growth	N	N	Y	N	S	S	Y
Provides Long Term Affordability (45 yr. minimum)	Y	Y	N	S	Y	Y	N
Serves Large Families	Y	Y	N	Y	Y	Y	S
Typical Income Level Target	80% - 120% of AMI	80% - 120% of AMI	50% - 80% of AMI	<80% of AMI	Varies	50% - 80% of AMI[2]	>120% of AMI
Average City Subsidy/ Unit	~$142K[1]	$0	$75K	$0	$0	$0	$0
Meets Affordable Housing Production Requirement	Y	Y	N	S	S	S	N
Provides Geographic Choice	N	Y	N	Y	S	S	Y
Provides Infill Development Opportunities	Y	S	N	N	S	S	S
Leverages Other Funds	S	N	Y	S	Y	Y	Y
Level of Risk to Tenant/Buyer[3]	H	H	M	M	M	M	M

Key: Y - yes, usually
N - no, usually
S - sometimes
H - high risk
M - moderate risk
L - low risk

Notes

1. Based on 2004 NOFA awards, 2005 NOFA awards and CEDA staff.
2. Based on Northern California Land Trust programs.
3. Risk is defined as the difference compared to market rate housing.

Description of Each Affordable Housing Program

(1) Affordable Homeownership Development Program (AHDP) - This City program provides gap financing for affordable ownership new construction or substantial rehabilitation. A maximum of 40 percent of development costs can be subsidized by the City. Resale restrictions remain in place on the property permanently and currently targeted to an average of 100 percent AMI. Units must comply with California Community Redevelopment Law requirements for long-term affordability and affordable housing cost.

(2) Inclusionary Housing Ownership Program- This City program will require 15 percent (on-site) or 20 percent (off-site) of market rate ownership projects with 20 or more units to be affordable to households at an average area median income of 100 percent. Developers have the option to pay an in-lieu fee rather than build the affordable units. Ownership units must remain affordable for 45 years (except in some cases units made available to Oakland teachers). Developers cannot use federal, state of local affordable housing funds to develop the affordable units.

(3) Mortgage Assistance Program (MAP) - The First Time Homebuyers MAP is a City program operating jointly with participating lenders to assist low-income, first time homebuyers to purchase existing homes in the City of Oakland. The property must be located in the City of Oakland and eligible properties include any single family dwelling, including condos and townhomes. The MAP funds can be used in conjunction with community land trusts and the inclusionary housing program. The home value needs to appreciate to a level to cover closing costs and interest payments in order for the program to be beneficial to the participants. Currently, the maximum second mortgage amount is $75,000 and the maximum sales price is $456,000.

(4) Section 8 Ownership Program - Administered by the Oakland Housing Authority, the Section 8 Homeownership Program allows first-time homeowners to use their Section 8 rental subsidy to meet monthly homeownership expenses (i.e. mortgage payments, utilities, maintenance and upkeep of the property). The program is only offered to eligible Oakland Housing Authority Section 8 participants and the purchased single-family homes must be located in Oakland. Requirements include homeownership counseling and a downpayment of 3 percent of the purchase price. Participants receive assistance for 15 years if the mortgage has a term for 20 years or longer, and 10 years in all other cases. There is no maximum term of assistance for elderly or disabled participants.

(5) Limited Equity Co-ops (LECs) - In general, limited equity cooperative members own a share in a corporation that owns or controls the building(s) and/or property in which they live. Each shareholder is typically entitled to occupy a specific unit and has a vote in the corporation. Limited equity co-ops limit the resale value of shares. The maximum resale value is usually predetermined by a formula established in the cooperative's bylaws. The City currently does not have a limited equity co-op program.

(6) Community Land Trust (CLT) - A community land trust (CLT) is generally a private, nonprofit corporation created to provide secure, affordable housing for lower-income community members. Typically, the CLT permanently owns the land. When a CLT sells homes on the CLT land, it leases the underlying land to the homeowners through a long-term, renewable lease. When CLT homeowners decide to move out of their homes, they can sell them either back to the CLT or to another low-income household for an affordable price. CLT boards generally determine the level of affordability. The City currently does not have a community land trust.

(7) Market Rate Homeownership - This refers to ownership housing that is sold at market value to households of all income levels. No subsidies are provided to developers to construct market rate housing. Owners receive a mortgage from a lender to cover the costs of purchasing the home. Mortgage Assistance Program participants may use the City subsidy to help purchase a market rate home if income-eligible. Many households are using adjustable rate mortgages to purchase market rate homes, which have a risk level of moderate to high.

Implications of Homeownership Issues on City Policy

	New Construction w/ Resale Restrictions	New Construction w/ City Recapture Provision	First Time Homebuyer Program for Existing Units (MAP)
Cost Per Unit	Projects need considerable subsidy to make projects feasible. Deeper subsidy needed to target very low or low income households. City's limit of 40% of development cost is insufficient.	Projects need considerable subsidy to make projects feasible. Deeper subsidy needed to target very low or low income households. City's limit of 40% of development cost is insufficient.	Less subsidy per unit needed than new construction ($75,000 max per unit).
Impact on Homeownership Rate	Adds units to supply. Minimal impact on homeownership rate.	Adds units to supply. Minimal impact on homeownership rate.	No impact on homeownership rate since existing units must be owner occupied. Serving only a certain segment of population who meets all criteria.
Long-Term Affordability	Permanent affordability.	No long term affordability. Affordable only to first buyer.	No long term affordability.
Redevelopment Production Targeting Requirements	Able to count units towards redevelopment law production requirements for project areas. Targets primarily moderate income households, not very low income households as required by law.	Not able to count units towards redevelopment law production requirements for project areas unless Agency commits to provide additional subsidies for 45 year period.	Not able to count units towards redevelopment law production requirements for project areas.
Redevelopment Expenditure Proportionality Requirements	Total expenditures on moderate income household units is limited to 39% of funds in each project area. May limit amount that can be spent on ownership. Primarily spending funds on moderate income households, not very low or low.	Total expenditures on moderate income household units is limited to 39% of funds in each project area. May limit amount that can be spent on ownership. Primarily spending funds on moderate income households, not very low or low.	Funds directed to low income households and some very low income households.
Other	Can target certain neighborhoods with low homeownership rate. Limits asset building and wealth creation for homeowners. Disincentive for improvements and/or maintenance.	Promotes asset building and wealth creation for homeowners.	MAP is primarily serving single person HH's, not families. Large families have difficulty finding sufficiently sized housing.

Impact of Homeownership Types on Traditional Homeownership Benefits

	New Construction w/ Resale Restrictions	New Construction w/ Recapture of Subsidy	First Time Homebuyer Program (MAP) for Existing Units.
Building Equity	Max Affordable Sales Price (MASP) is based on targeted income level. Limited equity growth. More dependent on increase in target income level & interest rate changes.	Seller is able to sell at market price and receives all equity after repayment of first mortgage and secondary financing including large City subsidy.	Seller is able to sell at market price and receives all equity after repayment of first mortgage and secondary financing including up to $75K in City subsidy.
Neighborhood Stability	Targets those homeowners whose primary goal is a long term stable housing situation rather than an investment. Pride in ownership and in neighborhood.	Homeowners tend to stay longer, to maintain and/or improve property, and to develop ownership pride in neighborhood.	Homeowners tend to stay longer, to maintain and/or improve property, and to develop ownership pride in neighborhood.
"Fixed" Housing Costs (as it relates to mortgages)	No adjustable rate mortgages (ARMs) are allowed. No secondary financing needed to make the unit, and keep the unit, affordable to target income level.	No ARMs are allowed. Very large City second deferred mortgage but it must be repaid at resale or refinancing.	No ARMs are allowed. Potential for use of several deferred or low interest secondary loans, including City's subsidy, most of which would need to be repaid at resale or refinancing.
Tax Deductions	Homebuyer can take advantage of tax deductions but amount is limited by the tax on the value (capped by MASP).	Homebuyer can take advantage of tax deductions but amount may be limited by the tax on the value (depending on whether it is based on the MASP or the market).	Homebuyer can take advantage of tax deductions but amount may be limited by the tax on the value (depending on whether it is based on the MASP or the market).
Ability to Leverage Outside Resources	Most lenders aren't currently willing to accept City resale restrictions. However, Fannie Mae and CalHFA may be adjusting policy.	No or very limited resale restrictions. Fannie Mae and CalHFA may be willing to accept these restrictions.	Cap on initial sales price. No resale restrictions. Fannie Mae and CalHFA will approve first mortgages and in some cases will approve/provide secondary financing.
Upgrades/Modifications to Property	No financial incentive to make improvements to property - MASP isn't dependent on improvements. Incentive to maintain because Agency may limit sales price to pay for deferred maintenance.	Incentive to improve because it affects the resale value.	Incentive to improve because it affects the resale value.

ATTACHMENT F

First Time Homebuyer Programs

The first-time homebuyer assistance programs are designed to help low and moderate-income households purchase existing housing by bridging the gap between market prices and what the household can actually afford. They provide assistance to homebuyers, but do not permanently restrict the affordability of homes. Instead, the City loan is repaid. The most popular of these programs, the Mortgage Assistance Program (MAP), requires repayment of the loan, with simple interest of 3 percent, at resale or refinancing. The maximum MAP loan amount was increased to $75,000 last July. The MAP program is only available to lower income households while some of the other assistance programs are available to both low and moderate income households.

The purpose of the City's MAP is to help individual low and moderate income household become homeowners and realize some equity appreciation or wealth building over the years. Although the initial buyer must meet income limits, there are no restrictions on the resale of the units. They can be sold at market to any buyer. Once the City and other lenders are repaid, the seller receives all of the net sales proceeds. In many cases, the homeowner will be able to accumulate enough assets to move into better housing or to pay for costs of higher education. The purchase price of MAP units is limited to 95% of the median sales price for Oakland homes. Because the City provides low interest mortgages directly to the individual buyer of a non-City subsidized (or existing) unit, the long term affordability requirement is not triggered.

Challenges. Although assistance programs like the MAP have been relatively successful and effective, some challenges have been identified. As indicated earlier, staff anticipates preparing an analysis of the programs and addressing any shortcomings identified for a report to the CED Committee later this year.

- Property size compared to household size. The MAP is predominately serving single person households in large part because there aren't sufficient larger units on the market priced within the MAP limit. Thus, the program is limited in its ability to assist larger households. Larger families that choose to use the program often face overcrowding issues by purchasing smaller units.

- Condition of the property. Many properties priced within the MAP limit also have deferred maintenance or major repair issues. Most borrowers use around 45% of their income to qualify for their first mortgage. This is often a substantial increase in their housing expense and leaves little to address repair issues.

- Need for additional subsidies. Many lower income borrowers need to utilize multiple deferred assistance programs to qualify for MAP eligible units. This will become an issue if there is a change in the housing market. Property values will have to increase enough to cover the interest accruing plus closing costs to prevent foreclosures in hard times.

- Impact on Very Low and Moderate Income Buyers. Very low income households that have used the program were either part of the Section 8 Homeownership program that subsidizes their payments or purchased a home from a non-profit developer. Without these types of assistance programs, or a buyer with access to a large downpayment, the program would have difficulty serving very low income households. Households between 81% and 120% of the area median income are not currently eligible for the program. According to the California Association of Realtors, only 14% of the households that earn the median income can afford to buy the median sales price home in Oakland. This leaves a large segment of the population out of the homebuyer's market.

ATTACHMENT G

Affordable Homeownership Development Program

The purpose of the Affordable Homeownership Development Program (AHDP) is to increase affordable homeownership opportunities in the City by building more units and keeping those units affordable over the long term. Under this program, low and moderate income buyers earn only a limited amount of equity but enjoy all of the other benefits of homeownership. It is not a homeownership program to help low/moderate income households to build wealth through equity appreciation. However, the program does address state redevelopment law requirements regarding long term affordability and production of affordable housing.

The AHDP provides construction loans to developers of homeownership housing. Upon completion of construction, the loans are converted into grants to enable new homes to sell at affordable sales prices that are considerably less than market value. In return, the City records permanent resale restrictions against the property that require the homes to be resold at an affordable housing cost and only to low or moderate income buyers. Under this program, the City's funds remain invested in the property and the housing remains affordable permanently.

The sales price of these new units must be in compliance with state law which defines the housing costs that must be included in calculating that sales price. For example, when a project is targeted to a moderate income household ($100,580 annually, or 120% of AMI, for 4 person household), the affordable housing cost can not exceed 35% of 110% of Area Median Income ($2,687 per month for a 4 person household). Those required housing costs include principal, interest, property taxes, hazard insurance, private mortgage insurance, homeowner's association dues and an allowance for utilities and maintenance. Factoring in these costs severely limits the sales prices and the sales proceeds available to help fund the construction of the affordable unit. But it does permit lower income households to purchase these units because they would qualify for sufficient funding from a private lender to purchase them.

During that 45 year affordability term, each time the unit is resold it must be sold at an affordable sales price based on the calculation of the affordable housing cost. That sales price is also dependent on the income limit and the interest rate at the time of the sale. These requirements insure that the resale price is affordable to the next buyer who meets the target income limit. The equity that the seller receives will be based on the difference between the original affordable sales price and the affordable sales price at the time of resale, plus their original downpayment and any equity earned from repayment of their first mortgage. It will most likely be considerably less than for an un-restricted sale or market rate sale.

Calculating the Affordability Gap for Homeownership Projects

(based on 2006 Income Limits)

Average Project

Total Development Cost (TDC)*	$	8,545,832
# Units		20
Cost/Unit	$	434,534
Aver Unit Size (bds)		3
Household Size		4

Income Level	Subsidy Level (as a percentage of the TDC)							
	40%				50%			
		Total		Per Unit		Total		Per Unit
60% AMI								
TDC	$	8,545,832	$	427,292	$	8,545,832	$	427,292
(Homebuyer $)	$	1,580,332	$	79,017	$	1,580,332	$	79,017
(CEDA $)	$	3,418,333	$	170,917	$	4,272,916	$	213,646
(Non-City Subsidy)**	$	400,000	$	20,000	$	400,000	$	20,000
Gap	**$**	**3,147,167**	**$**	**157,358**	**$**	**2,292,584**	**$**	**114,629**
80% AMI								
TDC	$	8,545,832	$	427,292	$	8,545,832	$	427,292
(Homebuyer $)	$	2,623,924	$	131,196	$	2,623,924	$	131,196
(CEDA $)	$	3,418,333	$	170,917	$	4,272,916	$	213,646
(Non-City Subsidy)**	$	400,000	$	20,000	$	400,000	$	20,000
Gap	**$**	**2,103,575**	**$**	**105,179**	**$**	**1,248,992**	**$**	**62,450**
100% AMI								
TDC	$	8,545,832	$	427,292	$	8,545,832	$	427,292
(Homebuyer $)	$	4,450,211	$	222,511	$	4,450,211	$	222,511
(CEDA $)	$	3,418,333	$	170,917	$	4,272,916	$	213,646
(Non-City Subsidy)**	$	-	$	-	$	-	$	-
Gap	**$**	**677,289**	**$**	**33,864**	**$**	**(177,295)**	**$**	**(8,865)**
120% AMI								
TDC	$	8,545,832	$	427,292	$	8,545,832	$	427,292
(Homebuyer $)	$	5,667,735	$	283,387	$	5,667,735	$	283,387
(CEDA $)	$	3,418,333	$	170,917	$	4,272,916	$	213,646
(Non-City Subsidy)**	$	-	$	-	$	-	$	-
Gap	**$**	**(540,236)**	**$**	**(27,012)**	**$**	**(1,394,819)**	**$**	**(69,741)**

Notes

*Average Development Costs from 2004-05 & 2005-06 NOFA applications (Mandela, Redwood Hills & Sausal Creek)

**"Non-City Subsidy" is AHP funding in the amount of $20,000 per unit, for housholds with incomes at 60% and 80% of AMI.