




AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Shola Olatoye
Deputy Director, HCD

SUBJECT: Apply for CalHome 2020 Grant
Appropriate CalHome Revenue

DATE: September 21, 2020

City Administrator Approval 

Date: October 7, 2020

RECOMMENDATION

Staff Recommends That The City Council Adopt The Following Pieces Of Legislation:

- 1) A Resolution Authorizing The City Administrator Or His Or Her Designee To Apply For, Accept, And Appropriate Grant Funds From The California Department Of Housing And Community Development CalHome 2020 Notice Of Funding Availability In An Amount Not To Exceed \$5 Million; And**
- 2) A Resolution Authorizing The Periodic Reappropriation of CalHome Program Repayment Revenues To Make New CalHome Program Loans Under The CalHome Program For A Period Of Five Years Without Returning To Council.**

EXECUTIVE SUMMARY

Staff recommends that the City Council adopt a resolution authorizing staff to submit an application to the California Department of Housing and Community Development (CA-HCD) for a grant from the CalHome Program. If the application is successful, the awarded grant funds will be used to make first-time homebuyer mortgage assistance loans. The CA-HCD 2020 CalHome Notice of Funding Availability (CalHome NOFA) schedule sets October 29, 2020 as the application due date.

This resolution authorizes the City to:

- Apply to CA-HCD for a CalHome grant in an amount not-to-exceed the program maximum of \$5 million
- To enter into a funding agreement with CA-HCD if the City is awarded program funds
- To accept and appropriate those funds to fulfill the program purpose of providing first-time homebuyer mortgage assistance if the City is awarded program funds

Staff recommends that the City Council adopt a second resolution authorizing staff to reappropriate existing CalHome program revenues (loan repayments) to the CalHome ReUse account in order to make new first-time homebuyer loans. Current program revenues total approximately \$200,000 which could assist two to four households, depending on the loan

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amount. CA HCD's program design and Budget Department policy encourage expediting reuse of the funding.

The August 31, 2020 CalHome 2020 NOFA announcement was released on September 3, 2020 and applications are due on October 29, 2020. The short lead time requires action at the October 20, 2020 City Council hearing or else the opportunity to apply will be missed.

BACKGROUND / LEGISLATIVE HISTORY

Since 1993, the City has developed and implemented a variety of programs to encourage and facilitate homeownership and has invested considerable funds to programs that increase and promote affordable homeownership opportunities. Increasing homeownership rates helps to stabilize neighborhoods and slow the effects of community gentrification by providing long-term housing affordability.

The City has operated the Oakland CalHome Program to assist low-income first-time homebuyers since 2007. The program is popular with homebuyers, community lenders, and buyers' agents; and through September 21, 2020 has assisted seventy-four (74) households to purchase their homes.

CalHome was created by Senate Bill (SB) 1656, Chapter 84 of the Statutes of 2000, which took effect on July 5, 2000 to add Chapter 6, commencing with Section 50650, to the Health and Safety Code (HSC). The first CalHome NOFA was issued in November 2000, with the first funding awarded in April 2001.

Effective September 2019, CA-HCD authority to operate the CalHome program was revised under SB 3 (Chapter 365, Statutes 2017) authorizing the Veterans and Affordable Housing Bond Act of 2018. SB 3, adopted by voters on November 6, 2018 (Proposition 1), authorizes the issuance of \$300 million of State General Obligation Bonds for the CalHome program. The bill also provided that CA-HCD may adopt guidelines establishing program requirements that would only apply to funds awarded by Proposition 1.

CA-HCD's stated program purpose is that funds are deployed to "assist the existing local homeownership programs aimed at lower and very low-income households in order to increase homeownership, encourage neighborhood revitalization and sustainable development, and maximize the use of existing homes."

The City Council has authorized staff to apply for the CalHome grant six times in the past. City applications received awards in 2003, 2006, and 2010 totaling \$2,575,000 to operate the Oakland CalHome Program. City Council authorized staff to apply for CalHome funding in February 2020 for Accessory Dwelling Unit (ADU) programs and for first time homebuyer mortgage assistance funding (Resolution Nos. 88060 and 88061 C.M.S.). The ADU application received a \$3 million award, but unfortunately the City did not receive funding for the First-time Homebuyer Mortgage Assistance Program in that funding round.

ANALYSIS & POLICY ALTERNATIVES

Applying for the grant could result in funding to operate the Oakland CalHome Program, which expands the availability of affordable housing options for low-income Oakland households. Not applying forgoes an opportunity to apply for funding to assist low-income residents.

Similarly, requiring staff to return annually to reappropriate program revenue could be required, but allowing for automatic revenue appropriation allows staff to be more efficient in deploying loans to assist homebuyers.

Past and Current First-Time Homebuyer Activity

The \$2,575,000 in CalHome program funds previously provided to the Oakland CalHome program resulted in down payment assistance to seventy-four (74) low-income families (households earning up to 80 percent AMI) to purchase their first home in Oakland. Thirty-two percent (32%) of Oakland CalHome loans benefit Section 8 homebuyers, residents who are among the most vulnerable applicants.

The last CalHome grant award received by Oakland was \$1.5 million in 2010. This award was fully expended on December 13, 2013, after which the program was suspended for lack of funds. Since that date, eleven (11) more CalHome loans were made using program Re-Use funds (sourced from loan repayment revenues).

During the same time period, the City operated three other down payment assistance programs:

- Mortgage Assistance Program (MAP) - funded 143 loans,
- Shared Appreciation Mortgage (SAM) - funded 17 loans,
- Building Equity and Growth in Neighborhoods Program (BEGIN) – funded 12 loans.

There is currently no funding available under the MAP, SAM and BEGIN programs. The City's past CalHome grants are fully expended and inactive. Currently there is a balance of \$15,051 of CalHome funds (from repaid CalHome loans previously re-appropriated to the ReUse account), and the program is effectively suspended pending funds replenishment. Since there is no assurance that the CalHome grant application will be awarded funds, staff recommends re-appropriating repayment revenues on a periodic basis to increase the program's capacity to make new loans -- as per the program's design.

Despite the discontinuity of funding, interest in the City's programs remains strong, as evidenced by daily inquiry calls regarding program funding availability and the continual full-capacity enrollments in the City sponsored first-time homebuyer workshops (until they were suspended in March 2020 to comply with Shelter-In-Place orders). Interest in the City's First-time Homebuyer Programs has increased in the last few years, as rents have increased – with homebuyer education class attendees stating that they would prefer to buy their own home in order to stay in Oakland, and to pay their own mortgage instead of paying their landlord's mortgage. Many residents face being priced-out of Oakland by rapidly rising rents and the lack of affordable rental housing supply.

The CalHome program funds are an important supplement to the flagship City-funded Homeownership Program Mortgage Assistance Program (MAP), thereby increasing the number

of buyers that can be assisted. Additionally, when MAP funds run out (as is currently the case), CalHome funds can continue to provide critical down payment assistance to those most in need (those with incomes below 80 percent of AMI); this is critically important to providing opportunity to Section 8 buyers.

Staff are conducting an analysis of the past first-time homebuyer activity, the strengths and weaknesses of the programs, the impact of increasing home values on the programs, and how modifications to program design can enhance the program's impact. A report to the City Council with the results of this analysis will be presented in the last quarter of 2020.

Policy Alignment

Operating the Oakland CalHome program supports the Housing & Community Development Department's (HCD's) 2021 Budget Mission Statement "We work on several levels to create and preserve affordable housing by...Providing direct assistance to first time homebuyers..." (Source [FY-2019-21-Adopted-Budget-Policy-Book](#)).

The recommendation to apply is shaped in part by the Racial Equity Impact Analysis findings showing the program's effectiveness in addressing mortgage lending disparities in Oakland, increasing affordable housing opportunities, and reducing burdens for the communities most heavily impacted by racial disparities.

Table 1 provides an analysis of HCD's past distribution of CalHome loans (includes all CalHome loans closed through 9/16/20 plus one pending loan as of September 16, 2020 that is anticipated to close by September 21, 2020). It is anticipated that if grant funds are awarded, or program revenue is reappropriated to make new loans, that the communities served will reflect a similar distribution with 70 percent of loans serving communities of color.

Table 1 Program Funds Distribution Through September 21, 2020

RACE			ETHNICITY	
Percentage	Count		Hispanic	Non-Hispanic
45%	33	African American	0	33
30%	22	White (Non-Hispanic)	0	22
12%	9	Asian/PI	0	9
9%	7	Hispanic	7	0
3%	2	Other/Multiple Race	0	2
1%	1	Native American	0	1
0%	0	Decline to Answer	0	0
100%	74	TOTAL	7	67

Based on historical data, the proposed loan funds would result in the majority of assistance being distributed to historically underserved communities of color.

Through a competitive application process, the CalHome NOFA offers a grant of up to \$5 million to local jurisdictions. Grant applicants have flexibility in shaping the program for which they propose to use the CalHome funds as long as basic program guidelines are met. One of these

guidelines is that eligible borrowers must be lower income, having household incomes no higher than eighty percent (80%) of Area Median Income (AMI).

The Oakland CalHome Program has been successful in structuring the program to provide gap loans to households at or below eighty percent (80%) of AMI, with interest rates of up to three percent (3%) simple interest and payments deferred for the 30-year term. No matching funds are required.

Proposals are evaluated on criteria which include the following:

- Capability to operate the program demonstrated by prior experience.
- Community need, based on the percentage of low-income households overpaying for their housing, and the percentage of low-income homeowners as reflected in U.S. Census data.
- Feasibility of the proposed program demonstrated by the extent to which the proposed program is responding to a community need and demonstrates a likelihood of success.

Use of CalHome Funds

If the resolution is approved and the application for a CalHome loan is successful, the CalHome funds will be used to make low-interest, deferred-payment mortgage assistance loans to low-income, first-time homebuyers.

Staff recommends the following program options:

1. A simple interest rate of three percent (3%), consistent with the City's existing loan programs.
2. A 30-year loan, with annual payments deferred, and payable upon sale or transfer of the home, or when the property ceases to be owner-occupied, or at maturity.
3. The maximum amount of the CalHome Program assistance of \$100,000 per household as allowed under the CalHome NOFA.
4. The assistance loans will be evidenced by a Promissory Note.
5. The loans will be secured by a deed of trust recorded on the property.
6. Funds will be made be available on a first-come, first-served basis.

Although the maximum loan amount possible under the CalHome NOFA is \$5 million, staff is reviewing scoring options, and may apply for less than the maximum permitted amount if it is determined that this would increase the City's likelihood of competing successfully for funding. If awarded \$2 million, the program could fund 20 mortgage assistance loans of \$100,000 within the three (3) years allotted in the CalHome standard contract period.

FISCAL IMPACT

If awarded funds, the City would receive a grant in an amount not to exceed \$5 million from the CA-HCD CalHome program for the purpose of making mortgage assistance loans pursuant to the Oakland CalHome program guidelines. Funds will be deposited into the California Department of Housing and Community Development Fund (Fund 2144).

If reappropriating existing program revenue is approved, the program would receive funding in an amount equal to the repayment revenues collected since the last reappropriation posted in September 2018, currently over \$200,000. The funds would be deployed for the purpose of making mortgage assistance loans pursuant to the Oakland CalHome program guidelines. Funds will be deposited into the California Department of Housing and Community Development Fund (Fund 2144). **Table 2**, below, provides the funding sources and amounts.

Table 2: Project Funding Codes

Fund Source	Organization	Account	Project	Program	Amount
California Housing & Community Development	Homeownership Programs	Loan Expenditures: Grant-Funded	CalHome Program	Home Ownership	
2144	89989	58311	TBD	NB32	Not to exceed \$5,000,000
2144	89989	58311	1000270	NB32	\$200,000 or current amount of revenues collected

There is no match requirement, and existing staff will administer the program. Since 2012 the City First Time Homebuyer programs are operated by one full time Housing Development Services (HDS) staffer, a fraction of one full-time HDS administrative assistant, and oversight by the HDS manager.

If the resolution allowing for automatic reappropriation of CalHome loan funds for new homebuyer loans is approved, approximately \$1 million in program revenue over five years will automatically be re-invested in loans to eligible first-time homebuyers. Program revenue from CalHome loan repayments is already restricted to homebuyer assistance per the current CalHome Loan Serving plans as approved by the state.

PUBLIC OUTREACH / INTEREST

There was no public outreach conducted regarding this agenda report and legislation due to the limited time between the September 3, 2020 grant announcement and the September 21, 2020 agenda package due date. However, City staff continue to receive virtually daily calls and emails from prospective homebuyers, lenders, housing counselors, and real estate professionals inquiring when program funds will be made available again.

A local realtor association's (Bridge Association of Realtors) Minority Task Force convened in July 2020 to review the status of City's First Time Homebuyer Assistance Programs including the Oakland CalHome Program. The group's recommendations resulted in the Association providing a letter of support for the City's first time homebuyer programs citing their importance in assisting low resource community members to not only stabilize their housing and strengthen community ties, but also to build intergenerational wealth (**Attachment A**).

COORDINATION

This report and legislation have been reviewed by the Office of the City Attorney and the Budget Bureau.

SUSTAINABLE OPPORTUNITIES

Economic: Expanding affordable homeownership opportunities for low-income families, seniors and Oakland's disabled community; in addition to expanding economic opportunity and increasing family wealth.

Environmental: Expanding homeownership opportunities close to employment centers provides a reduction of greenhouse gas generation by avoiding long auto commutes from less expensive, geographically distant communities. Less bay area commuting means healthier air for the community.

Race & Equity: The use of CalHome funds as proposed in this report promotes equity by providing assistance to low-income families to become homeowners. Homeownership has a positive impact on the quality of life for families and residents and their neighborhoods through stabilized community bonds, pride of ownership, and increased wealth.

The City's provision of down payment assistance serves to counter the imbalance in mortgage lending which is underrepresented in credit extended to disadvantaged communities. Federal data show that communities of color and low-income communities receive less mortgage financing than more privileged groups. Of the seventy-four (74) CalHome loans made, 70 percent assisted households where the primary borrower self-identified as a person of color, and 100 percent assisted low-income households with incomes not exceeding 80 percent AMI. Mortgage assistance demonstrably expands opportunities for disadvantaged buyers to secure stable and permanently affordable housing.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council adopt the follow pieces of legislation:

- 1) A Resolution authorizing the City Administrator or his or her designee to apply for, accept, and appropriate grant funds from the California Department of Housing and Community Development CalHome 2020 Notice Of Funding Availability in an amount not to exceed \$5 million; and
- 2) A Resolution authorizing the periodic reappropriation of CalHome program repayment revenues to make new CalHome program loans under the CalHome Program for a period of five years without returning to council.

For questions regarding this report, please contact Christia Katz Mulvey, Housing Development Manager at 510-238-3623, or Nicki Duesberg, Homeownership Programs at 510-238-6158.

Respectfully submitted,



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Attachments (1):

- A. Bridge Realtor's Association August 28, 2020 letter of support for the City's Mortgage Assistance Program (MAP). *MAP assists both low- and moderate-income first-time homebuyers, the program loan terms and requirements are in close alignment with the Oakland CalHome Program.*