

CITY OF OAKLAND

AGENDA REPORT

OFFICE OF THE CITY CLERK
2005 OCT 13 11:03

2005 OCT 13 PM 6:59

TO: Office of the City Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: October 25, 2005

RE: A RESOLUTION MODIFYING THE MORTGAGE ASSISTANCE PROGRAM GUIDELINES FOR FIRST-TIME HOMEBUYERS TO INCREASE THE MAXIMUM LOAN TO VALUE REQUIREMENT FROM THE CURRENT 97% TO 100%

SUMMARY

A resolution has been prepared authorizing modifications to the Mortgage Assistance Program (MAP) guidelines for first-time homebuyers to increase the maximum allowable loan to value requirement from 97% to 100% while maintaining an investment of 3% of the purchase price from the borrower to cover either the downpayment or closing costs.

The loan to value requirement was established February 27, 2001 by Resolution No. 76302 C.M.S. We have subsequently entered into an agreement with the California Housing and Finance Agency (CalHFA) that allows buyers to get below market interest rate loans and borrow up to an additional \$50,000. With property values increasing at a double digit rate, borrowers have had to borrow the maximum amount from both the City and CalHFA in order to purchase a home. This has created a problem with some of our borrowers because the City's program requires that the loan to value ratio not exceed 97%, leaving some qualified buyers not able to purchase homes under the current program guidelines.

The proposed modification will allow the program to provide assistance to more households by leveraging more money from outside sources.

This resolution authorizes staff to:

- Increase the loan to value requirement from 97% to 100%.
- Require a 3% borrower contribution to either downpayment or closing. The requirement would be waived for certain low income borrowers who are unlikely to be able to accumulate this much savings. Exceptions based on the following:
 - Borrower is extremely low income (at or below 50% Area Median Income). Currently, 50% area median income is \$37,250 for a family of 3
 - Borrower receives income from Supplemental Social Security which limits the amount of savings a recipient can have in order to remain eligible for the program.
 - Borrower is participating in Section 8 homeownership program or comparable program.

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FISCAL IMPACT

This program change does not impact the budget; no change is being proposed to the maximum loan amount or the annual allocation.

We will continue to fund loans within the amounts allocated for the program. The program is currently funded by annual allocations from the Redevelopment Agency Low and Moderate Income Housing funds.

BACKGROUND

The First-Time Homebuyer Mortgage Assistance Program was established July 27, 1993 by Resolution No. 70274 C.M.S. The purpose of the program was to promote neighborhood stabilization and revitalization through homeownership opportunities for low- to moderate-income citizens who historically had been underserved by major commercial lenders and the real estate community.

The Mortgage Assistance Program operates jointly with participating lenders to assist lower-income, first-time homebuyers to purchase homes in the City of Oakland. The Program provides a secured loan of up to \$50,000 for qualifying homebuyers. Repayment is deferred while the homebuyer lives in the home. The loan becomes due when the borrower sells, transfers, refinances the property, or converts the home to rental property. Three percent (3%) simple interest plus principal is due upon sale, transfer or refinance of the home.

The Council approved Resolution No. 76302 C.M.S., February 27, 2001, authorizing modifications to the program guidelines for the First-time Homebuyer Mortgage Assistance Program that, with other changes, established a loan to value at 97%.

Housing prices have been on the rise for the last few years. They have soared in California and housing prices in the East Bay are among the nations highest. CalHFA has created innovative loan products, allowing for 103% financing for low to moderate income first-time home buyers in high cost markets increasing the borrower's ability to purchase a home.

KEY ISSUES AND IMPACTS

First time homebuyers in Oakland face many obstacles that can discourage them from purchasing a home. These obstacles include credit, debt, having insufficient income to support the mortgage payment, finding a property in their price range, saving for downpayment and closing cost and being able to address the repair issues that the property may have. The MAP program is designed to extend their purchasing power; however, it requires that the borrower bring a substantial investment to the transaction which is disproportionate to their income level.

The current 97% loan to value requirement insures that the borrower invests 3% of the purchase price from their own funds for the down payment. Additionally, the borrower would have to pay approximately 3.5% of the purchase price for the closing costs. A borrower at 80% of the median income will have difficulty saving the money needed to cover these costs as housing prices continue to increase. For example, a \$350,000 house would require \$22,750 for down payment and closing costs. As they delay purchasing and continue to attempt to save, the 6.5% of purchase price they need to contribute is becoming further out of reach.

An estimate of actual costs covered by the borrower is listed below.

<u>Purchase Price</u>	<u>Down Payment</u>	<u>Closing costs at 3.5%</u>	<u>Total</u>
\$300,000	\$9,000	\$10,500	\$19,500
\$350,000	\$10,500	\$12,250	\$22,750
\$399,000	\$11,970	\$13,965	\$25,935

Currently, homebuyers have access to a number of loan products that allow at least 100% loan to value. Most of our loans are in combination with loan products from CalHFA that allows up to 103% loan to value. The CalHFA downpayment assistance programs require no monthly payments and the loans are not due until the end of the term of the first mortgage, upon sale or refinance. However, the City's current program guidelines don't permit the borrower to take full advantage of the CalHFA Program.

PROGRAM DESCRIPTION

The Mortgage Assistance Program operates jointly with participating lenders to assist first-time homebuyers at or below 80% of area median income to purchase homes in the City of Oakland. The Program provides a secured loan of up to \$50,000 for qualified homebuyers. The majority of the City's mortgage assistance loans leverage assistance from CalHFA. CalHFA allows up to 103% loan to value. The proposed changes would allow borrowers to take advantage of 100% financing

The intent for requiring a 97% loan-to-value ratio was to ensure that the borrower demonstrates a pattern of financial responsibility through the ability to save and provide an investment in the transaction. Increasing the loan to value to 100% but requiring 3% of the purchase price to come from the borrowers' own funds to pay either downpayment or closing cost would assist more borrowers while maintaining a borrower's financial investment in the transaction.

Staff is also requesting authority to reduce or waive this requirement for certain very-low income borrowers. With typical sales prices of approximately \$400,000, the required savings amount would be \$12,000. For participants in the Section 8 Homeownership Program or other programs that serve households with incomes less than \$20,000 to \$30,000, this 3% contribution represents

such a high proportion of annual income that it is unlikely that the household could save this amount. For these borrowers a smaller contribution would demonstrate financial responsibility and investment into the property proportionate to their income. Additionally, borrowers who receive Supplemental Security Income (SSI) are limited to accumulating \$2,000 in savings per individual or \$3,000 per couple. Households that saved the 3% for the City's program would lose their income as a result.

Granting waivers of the 3% requirement would make the City's program more consistent with the program offered by the first mortgage lender that serve very low-income borrowers. The Section 8 Homeownership Program requires only 1% borrower contribution and makes allowances for recipients of Supplemental Social Security.

The chart below compares, across the three different programs, the maximum allowable purchase price and the cash needed from the borrower for a family of 4 with an income at 50% of the area median income.

	City's Program Only	With CalHFA	With Section 8 Homeownership
Purchase Price	\$241,020	\$288,500	\$342,000
Cash to Close	\$15,666	0	\$3,420

SUSTAINABLE OPPORTUNITIES

Economic: Homeownership provides long term opportunities to build equity. Moreover, homeowners tend to invest in continuous improvements and maintenance of their properties.

Environmental: There are no direct environmental opportunities.

Social Equity: Homeownership improves the climate of the neighborhood by providing a sense of pride that may also result in fewer blighted buildings and lots. Homeowners tend to participate in the community, in which they have put down roots, contributing to the stability and well-being of those neighborhoods.

DISABILITY AND SENIOR CITIZEN ACCESS

There is no direct impact on senior citizens because this is a program for first-time homebuyers. Seniors and persons with disabilities are eligible for the MAP program. The City offers programs that assist disabled homeowners to make accessibility modifications and assist seniors to rehabilitate their homes. Housing Development works with developers to insure that the

required units for persons with disabilities are constructed to code and that new development projects are marketed to people with disabilities.

RECOMMENDATION(S) AND RATIONALE

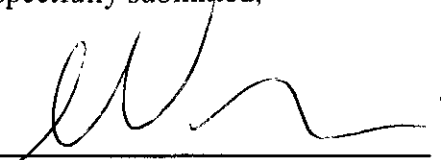
Staff recommends that the City adopt the attached resolution. Adoption of these changes would eliminate a major barrier to homeownership, allow the city to assist more low income and very low income families, further implement the City’s goal of providing homeownership opportunities to the citizens of Oakland and make the program more consistent with similar programs in other cities. Information on loan-to-value requirements and borrower required contribution for surrounding jurisdictions are listed below.

City	Loan to Value Requirement	Borrower’s Required Funds (% of Purchase Price)	Income Limit (% of Median)	Maximum Loan Amount
Alameda	100%	0%	up to 80% 80% – 120%	\$50,000 \$35,000
Berkeley	No program	N/A	N/A	
Emeryville	None	0%	120%	1.5X Downpayment to 15% of purchase price
Fremont	None	0%-1% depending on loan product	120%	\$40,000
Hayward	97% or 99% with CalHFA	3% for downpayment and funds for closing costs. If using CalHFA 1% of purchase price plus closing costs	120%	\$20,000
San Francisco	95%	5%	100%	\$100,000
San Jose (several programs)	Up to 103%	0%	up to 150%	\$6,500 \$80,000
San Leandro	100%	Requires 3% for downpayment or closing costs. Will consider less on a case by case basis.	120%	\$20,000

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the Council approve the resolution to modify the program guidelines for the Mortgage Assistance Program (MAP) for first-time homebuyers to increase the maximum loan to value requirement to 100% while maintaining an investment of 3% of the purchase price from the borrower to cover either downpayment or closing costs with allowances for exceptions.

Respectfully submitted,



DANIEL VANDERPRIEM

Director of Redevelopment, Economic
Development and Housing and Community
Development

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

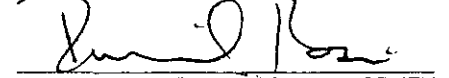
Prepared by:
Christina Morales, First Time Homebuyer
Coordinator

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE


OFFICE OF THE CITY ADMINISTRATOR

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Item: _____
CED Committee
October 25, 2005


DEPUTY CITY ATTORNEY
OFFICE OF THE CITY CLERK
OAKLAND

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OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C. M. S.

INTRODUCED BY COUNCILMEMBER _____

A RESOLUTION MODIFYING THE MORTGAGE ASSISTANCE PROGRAM GUIDELINES FOR FIRST-TIME HOMEBUYERS TO INCREASE THE MAXIMUM LOAN TO VALUE REQUIREMENT FROM THE CURRENT 97% TO 100%

WHEREAS, the Mortgage Assistance Program (MAP) for first-time homebuyers assists low income first time homebuyers at or below 80% of area median income to purchase homes in Oakland by providing deferred loans that generate private mortgage lending and provide homeownership opportunities; and

WHEREAS, Resolution No. 76302 C.M.S. authorized modifications to the program guidelines for the MAP that, among other things, established a maximum loan-to-value ratio of 97%; and

WHEREAS, changes in the Oakland housing market have limited the range of households the program can currently serve; and

WHEREAS, several loan products are available that allow for 103% financing in high-cost markets that provide downpayment assistance and closing costs and increase the borrower's ability to purchase; and

WHEREAS, the City wishes to modify the program and increase the maximum loan to value requirement from 97% to 100% to be more effective in the current housing market by providing access to home mortgage loan assistance to more households; now, therefore, be it

RESOLVED: That the City Council hereby approves a modification to the program guidelines for the Mortgage Assistance Program to increase the maximum loan-to-value requirement from the current 97% to 100%; and be it further

RESOLVED: That borrowers will be required to maintain a minimum investment of 3% of the purchase price to cover either downpayment or closing costs, with the following exceptions: (1) borrowers who are at or below 50% of area median income, (2) borrowers whose source of income has asset restrictions, or (3) borrowers who participate in the Section 8 Homeownership Program or comparable program; and be it further

RESOLVED: That the City Council hereby appoints the City Administrator and her designee as agent of the City to take any actions necessary to execute documents, administer the

Mortgage Assistance Program, and take any other necessary actions consistent with this Resolution and its basic purpose.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2005

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, KERNIGHAN, NADEL, QUAN, REID, AND PRESIDENT DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

ATTEST:

LATONDA SIMMONS
City Clerk and Clerk of the Council
of the City of Oakland, California