OFFICE OF THE CITY CLERK

CITY OF OAKLAND

2007 JUN 14 PM 3:00

AGENDA REPORT

TO: Office of the City Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: June 26, 2007

RE: **A Report and Recommendation To Increase The Maximum Subsidy Amount From 40% To 50% Of The Total Development Cost Of The Affordable Units For The Affordable Homeownership Development Program**

SUMMARY

During discussions about the 2006-07 Notice of Funding Availability (NOFA) for Affordable Rental and Ownership Housing at its March 20, 2007 City Council meeting, the Council raised concerns about the lack of new homeownership projects. Council requested that staff return with a report regarding a previously proposed policy change to increase the subsidy amount provided for affordable homeownership development projects. This report provides highlights of the analysis of the existing affordable homeownership development program that was presented to City Council on July 18, 2006 and re-introduces a staff recommendation made at that time.

Staff recommends that City Council increase the City/Agency's subsidy from 40% to 50% of the total development cost (TDC) of the affordable homeownership units. Staff further recommends that the City Council/Redevelopment Agency adopt this policy change now to ensure that the City/Agency's annual NOFA, scheduled to be published in early August 2007, will reflect the City/Agency's priorities and policies with respect to new affordable homeownership development projects.

FISCAL IMPACT

The program that would be affected by these policy changes uses existing Redevelopment Agency Low and Moderate Income Housing Funds (Low/Mod Housing Funds) and HUD 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 result in expending more funds for ownership projects and move the NOFA allocations closer to the City Council's goal of 50% of Low/Mod Housing Funds targeted to ownership projects.

BACKGROUND

Two of the City Council's major two-year goals, established as part of the FY 2007-09 Budget meetings, were to "Develop a Sustainable City" and to "Expand Economic Development." Over the past decade, 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.

KEY ISSUES AND IMPACTS

Homeownership Programs in Context

Staff has included a number of key attachments from the July 2006 Agenda Report 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** shows numerous ownership opportunities for low and moderate income homebuyers. These include ownership programs that don't involve the City as well as those that do. This attachment provides a comparison of policy objectives for these various ownership program types.
- **Attachment C** provides a chart comparing three different homeownership program options in terms of the different objectives each addresses.
- **Attachment D** looks at the varying mixes of benefits that the homebuyer receives depending on the program they use.

Effect of State Redevelopment Law on Homeownership Programs

Several provisions of State redevelopment law affect low and moderate income ownership housing production in general and the Affordable Homeownership Development Program (AHDP) in particular.

- <u>Affordable Sales Prices based on Affordable Housing Cost</u>. New affordable homeownership units must be sold at 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 (ASP) 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 80% of Area Median Income would be $131,196 based on an affordable housing cost of $1,467 per month (using a 7% interest rate and 2007 income limits). 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. 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. State affordability restrictions on new Agency-assisted ownership 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 significantly lower than that from market rate units.

Limitations of Current Affordable Homeownership Development Program Guidelines

- Increasing costs. According to the federal Department of Housing and Urban Development (HUD), there was no change in income in the Oakland area from 2006 to 2007. Yet development costs continue to rise. 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 maximum target income level of 100% of Area Median Income for all assisted units in a project to an average income level of 100% of Area Median Income (allowing some units to be targeted as low as 80% and some as high as 120% 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 the City's target income limit.

- Limited ability to leverage resources. There are far fewer outside subsidy programs available for ownership projects than for rental projects. In turn, it is difficult to leverage those programs because of the affordability restrictions on the development of new subsidized ownership units required by state redevelopment law. Most lenders still require that the affordability restrictions be subordinated to their deeds of trust even though the City would lose the affordable homeownership units and the affordability restrictions completely if the lender forecloses on the units.

PROPOSED CHANGE TO THE AHDP

At the July 18, 2006 meeting, Council did not approve staff's recommendations to increase both the subsidy amount and the target income limit in order to improve the effectiveness of the AHDP. The 2006-07 NOFA did not result in any new affordable homeownership development proposals being approved for funding. Council reiterated its interest in providing new homeownership units and requested that staff return with a report and recommendation to increase the subsidy amount to allow for more affordable homeownership developments to receive funding. As a result, staff recommends that the City Council/Agency approve the following specific policy change:

- Increase the maximum subsidy provided by the City/Agency 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. It allows projects that target an average income level of 100% of Area Median Income for all assisted units to be economically feasible.

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 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 are typically located near mass transit and neighborhood amenities, these developments provide housing that is not dependent on the constant use of the automobile and is an alternative to urban sprawl.

- **Social Equity:** Homeownership has a positive impact on the quality of life for families and 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 units 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.

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 a change to the current AHDP guidelines to increase the maximum subsidy provided by the City/Agency for affordable ownership development projects, from 40 *percent to 50 percent of the total development cost of the affordable unit. The rationale for this* change, and some of the possible consequences, are discussed below.

Rationale for Increasing the Subsidy

Attachment E shows the impact of increasing the subsidy percent of the total development cost of the affordable units by 10%, from 40% to 50% using the highest recent subsidy from the 2006-07 NOFA, of $175,000 per unit, 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 $828,722 gap if only 40% is provided and a cushion of $51,100 if 50% is provided. Although this increase in subsidy would make more affordable homeownership developments feasible, this would mean an increase in the subsidy per ownership unit from $175,964 to $219,956, a 25% increase in subsidy amount.

Advantages, Disadvantages, and Consequences of Increasing the Subsidy

<u>The advantages</u> of approving this change:

- Expand the number of affordable ownership units produced because the change makes 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.
- Provide more affordable housing funds to ownership projects, thus making homeownership development projects more feasible.

The disadvantages/implications of approving this change are that they would:

- Requires higher per unit subsidies and would mean fewer affordable housing units could be produced.
- Directs resources to a higher income level (moderate income), leaving fewer resources to assist those lower income households most in need of affordable housing and not likely to be able to purchase a home.

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. It is not considered "true" homeownership by many because of that very limited equity growth. However, it does provide all of the other benefits of traditional homeownership. State law defines affordable sales price for 100% of Area Median Income as total monthly housing costs equal to 35% of 90% of Area Median Income. However, the law includes in the affordable housing cost many items not used by private lenders when underwriting mortgages. Although targeted to moderate income households, some lower income households could purchase these units.

- Need for more effective homebuyer education. Many buyers have indicated that the restrictions and requirements are too hard to understand and/or that they don't recall there are any restrictions when they are ready to sell. They are surprised that they will not be able to sell at market prices and realize the same equity as a market rate seller.

  The homebuyer is able to purchase the unit at a price substantially lower than market. Because of the restricted sales price, at resale they receive only a limited amount of equity, not enough to move up in the current market or to use for college, etc. It is imperative that the City develop a better method of explaining these 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 these homeowners. 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 available 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 needs. This would allow for a more focused approach to educating both the developers and the homebuyers regarding the nuances of the program.

ALTERNATIVE RECOMMENDATION(S)

Terminate the AHDP and focus on homeownership assistance programs

The Council could choose to focus on providing homebuyers with direct assistance and give them the opportunity to accumulate equity and move up in the housing market rather than on the development of new long term affordable ownership units with limited equity. Although the assistance programs would not address the redevelopment production requirement, the cost (up to $75,000) to assist a homebuyer is much lower than the cost to subsidize the development of a new permanently affordable unit (at subsidy of 40%, approximately $175,000 per unit, and at a subsidy of 50%, approximately $219,000 per unit). In addition, homebuyer assistance programs, like the City's existing Mortgage Assistance Program (MAP), are able to leverage other state and federal dollars that cannot be used with AHDP type programs. Homebuyer assistance programs enable more low and moderate income households to purchase a home and have the ability to generate wealth upon resale of their home. The buyer can sell or refinance their home based on market value and realize all of the equity remaining after they have paid off their first mortgage, the City's MAP mortgage, and any other secondary financing.

Alternatives to continuing the AHDP include adopting an inclusionary zoning ordinance that provides ownership housing for low and moderate income households. Because of the long term affordability requirement (45 year minimum), these homes would meet the redevelopment production requirements. In addition, Council could allow the City's MAP program, which is currently only available to households earning up to 80% of Area Median Income, to be expanded to target higher income households (at 100% or 110% of Area Median Income). Assistance to the higher income households could be funded from non-housing funding sources and/or could be capped at a lower amount which will still provide enough assistance for those households to purchase an existing home.

ACTION REQUESTED OF THE CITY COUNCIL/REDEVELOPMENT AGENCY

Staff is recommending a policy change which would allow an increase in the subsidy amount from 40% to 50% of the total development cost of the affordable ownership units. Staff requests that the City Council/Redevelopment Agency adopt a motion to approve this recommendation and to authorize staff to incorporate this policy change into the guidelines for the AHDP in time for its inclusion in the new NOFA to be issued in August 2007.

Respectfully submitted,

GREGORY D. HUNTER
Interim Director of Redevelopment, Economic Development, Housing and Community Development

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

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

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:

OFFICE OF THE CITY ADMINISTRATOR
AND THE AGENCY ADMINISTRATOR

Attachments (5)

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 needed 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 with developing affordable ownership housing and improve the success of the AHDP by July 2006.

- July 2006, the City Council declined to act on staff recommendations for policy changes to increase both the subsidy amount and the target income limit for affordable homeownership development projects.

- March 2007, during NOFA discussions, the City Council asked Housing Development staff to return with a new policy recommendation to increase the subsidy amount for affordable homeownership development projects.

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 E

Calculating the Affordability Gap for Homeownership Projects

(based on 2007 Income Limits)

Subject Project

Total Development Cost (TDC)*	$	8,798,222
# Units		20
Cost/Unit	$	447,367
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	$	8,798,222	$	439,911		$	8,798,222	$	439,911
(Homebuyer $)	$	1,580,332	$	79,017		$	1,580,332	$	79,017
(CEDA $)	$	3,519,289	$	175,964		$	4,399,111	$	219,956
(Non-City Subsidy)**	$	400,000	$	20,000		$	400,000	$	20,000
Gap	**$**	**3,298,601**	**$**	**164,930**		**$**	**2,418,779**	**$**	**120,939**
80% AMI									
TDC	$	8,798,222	$	439,911		$	8,798,222	$	439,911
(Homebuyer $)	$	2,623,924	$	131,196		$	2,623,924	$	131,196
(CEDA $)	$	3,519,289	$	175,964		$	4,399,111	$	219,956
(Non-City Subsidy)**	$	400,000	$	20,000		$	400,000	$	20,000
Gap	**$**	**2,255,009**	**$**	**112,750**		**$**	**1,375,186**	**$**	**68,759**
100% AMI									
TDC	$	8,798,222	$	439,911		$	8,798,222	$	439,911
(Homebuyer $)	$	4,450,211	$	222,511		$	4,450,211	$	222,511
(CEDA $)	$	3,519,289	$	175,964		$	4,399,111	$	219,956
(Non-City Subsidy)**	$	-	$	-		$	-	$	-
Gap	**$**	**828,722**	**$**	**41,436**		**$**	**(51,100)**	**$**	**(2,555)**
120% AMI									
TDC	$	8,798,222	$	439,911		$	8,798,222	$	439,911
(Homebuyer $)	$	5,667,735	$	283,387		$	5,667,735	$	283,387
(CEDA $)	$	3,519,289	$	175,964		$	4,399,111	$	219,956
(Non-City Subsidy)**	$	-	$	-		$	-	$	-
Gap	**$**	**(388,802)**	**$**	**(19,440)**		**$**	**(1,268,624)**	**$**	**(63,431)**

Notes

*Average Development Costs from 2005-06 and 2006-07 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.