

TO: JAMES L. APP, CITY MANAGER

FROM: BOB LATA, COMMUNITY DEVELOPMENT DIRECTOR

SUBJECT: CALHOME FIRST-TIME HOMEBUYERS LOAN PROGRAM: MAXIMUM LOAN AMOUNTS

DATE: AUGUST 19, 2003

Needs: To establish a maximum loan amount for deferred-payment ("silent") second mortgage loans to first-time homebuyers under the City's CalHome Loan Grant.

Facts:

1. In April 2001 the City received a grant of \$500,000 from the State of California's CalHome Program for the purpose of making silent second mortgage loans to first-time homebuyers.
2. State Law governing the CalHome Program limits participation to borrowers who qualify as being low income (earning 80% or less of the County's Median Income).
3. In 2001, when the CalHome Grant was approved, state regulations specified that the maximum loan amount would be \$30,000.
4. Although the CalHome Grant was approved in April 2001, state regulations specified that, prior to making any loans, the State Department of Housing and Community Development (HCD) must approve each grantee's loan documents, loan administration procedures, and homebuyer education curriculum. It took the balance of 2001 to complete those requirements.
5. By January 2002, when the City had received authorization from HCD to begin making CalHome loans, the cost of housing in the City had risen to the point that, even with a \$30,000 silent second mortgage loan, low income homebuyers could not afford to purchase a home.
6. As of the date of this report, owing to the cost of housing, the requirement that borrowers be low income, and the \$30,000 maximum loan amount, the City has yet to make a CalHome Loan.
7. In late July 2003, HCD informed the City that state regulations had been amended to remove the maximum loan amount for CalHome Loans and that grantees were free to establish their own maximum loan amounts.
8. The Agreement for the City's CalHome Grant was recently extended until October 5, 2004.
9. The parameters for a CalHome Loan include the following:
  - Minimum term is 30 years, after which a balloon payment is due.
  - Interest Rate: 3% simple.
  - Loans are due on sale, transfer to other than spouse, repayment and refinancing of first mortgage. No assumptions are allowed, even by qualified CalHome borrowers.
  - Borrowers must reside in the home financed with the CalHome loan.

- The first mortgage must be a 30 year, fixed-rate loan.
  - Homes financed must be located within Paso Robles city limits.
10. The Redevelopment Agency has approved an allocation of \$15,600 in Low and Moderate Income Housing (LMIH) Funds to supplement the CalHome Grant. The LMIH funds are to be used as grants to CalHome borrowers in the amount of \$600 per loan to offset loan administration fees to be charged by the Housing Authority of the City of San Luis Obispo (HASLO) for processing loan applications.

**Analysis and Conclusion:**

HCD has informed the City that some CalHome recipients (i.e., other cities) are now making second mortgage loans at levels as high as \$90,000. The table below shows the purchase prices for homes that would be affordable to low income households with 4 persons earning 70% and 80% of the Area (County) Median Income (AMI) using 2003 income levels and an interest rate of 5.0% (which is available for a 30 year fixed rate Cal HFA first mortgage loan).

<b>2<sup>nd</sup> Mortgage Amount</b>	<b>Purchase Price Affordable to 4 Person Households earning 70% of AMI (\$40,400/year)</b>	<b>Purchase Price Affordable to 4 Person Households earning 80% of AMI (\$46,150/year)</b>
\$60,000	\$215,000 - \$225,000	\$240,000 - \$245,000
\$70,000	\$225,000 - \$230,000	\$245,000 - \$255,000
\$80,000	\$235,000 - \$240,000	\$255,000 - \$260,000
\$90,000	\$245,000 - \$250,000	\$265,000 - \$270,000

In late July, the following prices were listed for homes in Paso Robles.

2 bedroom condominiums on Spring and Pine Streets..... \$140,000 - \$165,000  
 2 bedroom home in Royal Oak Meadows \* ..... \$235,000  
 3 bedroom homes in Oak Creek area \*\* ..... \$265,000  
 3 bedroom homes in Sherwood Acres..... \$275,000 - \$280,000  
 3 bedroom homes in Melody Drive Area..... \$280,000 - \$300,000

\* Family section of Sierra Bonita Homes

\*\* Neighborhood south of Scott Street, east of Creston Road

Listings at the low end of the above scale were relatively few in number. In order to provide a large enough pool of homes affordable to low income households, it would appear necessary to allow second mortgage amounts of up to \$90,000. State regulations do not prescribe an upper limit, and the Council could set a higher limit if perceived to be necessary and appropriate.

The State regulations for the CalHome Program do provide that borrowers must obtain the highest first mortgage loan that they can qualify for, thereby minimizing the amount of the CalHome Loan. Should the City Council establish a maximum loan amount, CalHome borrowers would not automatically be entitled to that amount.

**Policy**

**Reference:**

State Regulations governing the CalHome Program

**Fiscal Impact:** CalHome funds used for the loans are State funds that have been granted. In accepting the grant, the City has agreed to either revolve repaid CalHome funds into new loans or return the repaid funds to the State. A total of \$15,600 in LMIH funds have been allocated to supplement CalHome funds and to be used for paying HASLO's loan processing fees.

- Options:**
- a. Establish a maximum loan amount of \$90,000 for the CalHome.
  - b. Amend, modify or reject the foregoing option.

**Prepared By:**

**Ed Gallagher**  
**Housing Programs Manager**