

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

---


Date: June 27, 2016

CAO File No. 0220-00540-1096

Council File No. C.F. 14-0852-S1

Council District: All

To: The Council

From:  Miguel A. Santana, City Administrative Officer



Reference: Cedillo/Wesson Motion C.F. 14-0852-S1

Subject: **HOUSING AND COMMUNITY INVESTMENT DEPARTMENT HOMEOWNERSHIP ASSISTANCE PROGRAM**

---

### RECOMMENDATIONS

That the Council instruct Housing and Community Investment Department (HCID) to report to Council within 90 days regarding the following:

1. Outcomes of its market-based research and reassessment of its Low Income Purchase Assistance Program (LIPA) to determine any modifications or adjustments required to improve access for low-income homebuyers, and details regarding the purchasing power for these homebuyers;
2. Reassessment of its Moderate Income Purchase Assistance Program (MIPA) within the context of the current real estate market to determine any modifications or adjustments required, including the allocation of funds, to restart the program, and details regarding the purchasing power for these homebuyers;
3. Recommendations for Neighborhood Stabilization Program sites and use of program income; and,
4. Evaluation of HCID's marketing efforts and plans to expand outreach activities, including a discussion regarding how additional funds could be used to promote homeownership in the City.

### FISCAL IMPACT STATEMENT

This report is for informational purposes only; there is no fiscal impact.

### SUMMARY

An April 2016 Motion (C.F. 14-0852-S1), presented by Councilmembers Cedillo and Wesson, requested that the CAO, along with the Chief Legislative Analyst and HCID, report with a review of HCID's homeownership assistance programs, including details such as the number of

applicants for the programs and recommendations regarding how to increase participation and how additional resources might be used to benefit the programs.

**BACKGROUND**

*Low Income Purchase Assistance Program*

The Low Income Purchase Assistance Program (LIPA) provides subordinate, purchase assistance loans to eligible low-income, first-time homebuyers who purchase a home in the City. The LIPA loan helps provide the down payment, closing costs, and gap financing of a homebuyer's primary residence. The loan is provided in conjunction with FHA or conventional first mortgages provided by HCID's participating lenders. The LIPA loans have a zero percent interest rate and are due upon sale, title transfer, first mortgage repayment, or in 30 years as a balloon payment. The loans contain a shared appreciation provision based on a ratio of the loan amount to the purchase price. Borrowers are required to pay the principal and the percentage share upon LIPA loan repayment.

To qualify for the LIPA program, borrowers must be first-time, low-income homebuyers whose total household income is at 80 percent or less of the local Area Median Income (AMI) as set by the U.S. Department of Housing and Urban Development (HUD). The 2016 Low Income limits are as follows:

<b>Household Size</b>	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>	<b><u>8</u></b>
<b>Low Income 80% AMI</b>	\$48,650	\$55,600	\$62,550	\$69,450	\$75,050	\$80,600	\$86,150	\$91,700

The homebuyers must purchase a one-unit property in the City and occupy the property as their primary residence for the term of the loan. Additionally, homebuyers are required to contribute at least one percent of the purchase price for down payment from their funds and attend a HCID and HUD-approved homebuyer education class. The City's homeownership program funds are leveraged with private mortgage financing and other assistance programs to achieve the maximum purchasing power for the homebuyer.

Although the LIPA loan limit authority is up to \$90,000, HCIDLA currently provides low-income purchase assistance loans of up to \$60,000 per household. During the last five program years, HCID assisted approximately 327 families under this program for a total funding amount of \$18.3 million. Attachment 1 shows a breakdown of LIPA loans by Council District. The program receives approximately 100 applications per year, and the current fall-out rate is approximately 12 percent primarily due to households that are over the income limits and/or property repair issues.

The primary funding sources utilized for this program are federal sources such as Home Investment Partnerships Program (HOME) and Community Development Block Grant (CDBG) funds. State of California grant sources from the CalHome Program and Local Housing Trust Fund (LHTF) Program have also been utilized in the past for this program, in addition to federal

American Dream Downpayment Initiative (ADDI) funds The State grants were funded with monies from Propositions 1C and 46 and the State has indicated that those funds have been fully exhausted. Until a new source of funding is developed, there will be no future Notices of Funding Availability (NOFAs).The federal government has not funded the ADDI Program in recent years.

During the last program year, 83 families were assisted for a total funding amount of \$4.8 million. The average monthly funding amount is currently \$405,769 with an average of 6.91 loans funded per month. The current average home purchase price is \$283,000. HCID is currently using an allocation of \$3 million of Program Year 41 HOME funds for this program and expects to commit all of these funds by the end of July 2016. At least 50 families will be assisted with this allocation. Beginning August 2016, HCID will spend the Program Year 42 HOME allocation of \$4.7 million for new loans.

*Moderate Income Homeownership Program*

When home prices rose dramatically in the City around 2004, the City began assisting moderate-income homebuyers in part because of difficulties providing assistance to low-income buyers with newly-reduced borrowing and purchasing power. That year, the City approved two homebuyer initiatives to increase homeownership rates for moderate income households earning between 81 and 120 percent of AMI. The approval of this program marked the first time that the City offered moderate-income borrowers money to fill the purchase price and down payment gap preventing homeownership for some individuals and families in the City.

The first initiative, called the Moderate Income Purchase Assistance Program (MIPA), provided deferred, second mortgage loans to moderate-income households to purchase homes for sale through the local housing market. A goal of the MIPA is to provide workforce housing for moderate-income earners such as teachers, medical personnel, and entry level police and firefighters. In 2005, the City approved a modification to the MIPA and expanded the income range of eligible homebuyers to reach households earning 120 to 150 percent of AMI. The City assisted approximately 300 families under MIPA for a total funding amount of \$22 million. The City allocated General Fund and Municipal Finance Housing Finance Funds (MHFF) for this program because those funds were flexible and had no income restrictions like other federal and State funding sources. Attachment 2 shows a breakdown of MIPA loans by Council District. The 2016 Moderate Income limits are shown below:

<b>Household Size</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
<b>Mod 120% AMI</b>	\$72,900	\$83,350	\$93,750	\$104,150	\$112,500	\$120,850	\$129,150	\$137,500
<b>Mod 150% AMI</b>	\$91,200	\$104,250	\$117,300	\$130,200	\$140,700	\$151,150	\$161,550	\$171,950

The second initiative, the Forward Commitment Program (FC), focuses on creating new affordable housing and provides a contractual promise by HCID to provide purchase assistance funds to eventual homebuyers of homes upon project completion. The FC requires that

homebuilders set aside a minimum of 15 newly-constructed homes per development for moderate-income individuals and families. Attachment 3 shows a breakdown of FC loans by Council District.

The City previously approved and funded three FC developments: Puerta del Sol (CD 1), Santa Ana Pines (CD 15), and EHOP Scattered Sites (CDs 8, 9, 13, and 15). Other HCID federal and State sources were used to leverage the FC funds. At least 97 low and moderate-income families purchased homes in these developments for a total funding amount of \$9.4 million. Three additional projects were approved in 2008 for a total commitment amount of \$6.1 million; however, these projects fell through due to changes in the housing and real estate markets. Under MIPA and FC, HCID assisted 363 families for a total purchase assistance amount of \$27.2 million of Municipal Housing Finance Funds (MHFF), General Funds, and Building Equity and Growth in Neighborhoods (BEGIN) funds.

It should be noted that options for homebuyers in the both the low-income and moderate-income ranges continue to be of concern given the April 2016 Los Angeles County median home price of \$520,000 that was recently reported by the *Los Angeles Times*.

#### *Neighborhood Stabilization Program Loans*

In 2008, Congress established the Neighborhood Stabilization Program (NSP) to assist communities suffering from foreclosures and abandonment due to the subprime mortgage crisis. NSP enabled the purchase and redevelopment of foreclosed and abandoned homes and residential properties. HCID applied for NSP funds from the Department of Housing and Urban Development (HUD) and received three grants (NSP1, NSP2, and NSP3) totaling \$141 million. The City approved two homebuyer programs under NSP and assisted 191 families with the purchase of a home. The total amount of purchase assistance funding was \$8.9 million. The majority of NSP homes were funded in the areas hardest hit by foreclosures such as South Los Angeles and the East San Fernando Valley. There are ten lots remaining that may be used as housing development sites. Also, approximately \$10 million of NSP program income is available. It is recommended that HCID report to the Mayor and Council with recommendations for the sites and use of program income. Attachment 4 provides further detail regarding issuance by Council District.

It should be noted that the NSP grants are expired. While NSP will continue to generate program income for years, income flows are unpredictable because funds are generated through the resale of homeowner properties with NSP second mortgages and residual receipts from affordable multifamily rental properties similar to Affordable Housing Trust Fund developments.

#### *Mortgage Credit Certificates*

A Mortgage Credit Certificate (MCC) provides eligible, first-time homebuyers with a federal income tax credit based on a specified percentage of the annual interest paid on a mortgage. The tax credit is a dollar-for-dollar reduction to the homebuyer's potential federal income tax liability that increases the household income available to qualify for a home mortgage and to make monthly mortgage payments. When using an MCC, a homebuyer can receive a dollar-for-

dollar tax credit that reduces the homebuyer's potential federal income tax liability, increases the amount of disposable income available to purchase a home and helps the homebuyer more easily qualify for a higher first mortgage. The MCC can be used in conjunction with an HCID low-income, moderate-income or CalHOME Loan. It may also be used as a stand-alone product. HCID reports that between 2011 and 2016, a total of 630 MCCs were issued totaling approximately \$21.3 million. Additional information by Council District is provided in Attachment 5.

### *Marketing and Outreach Efforts*

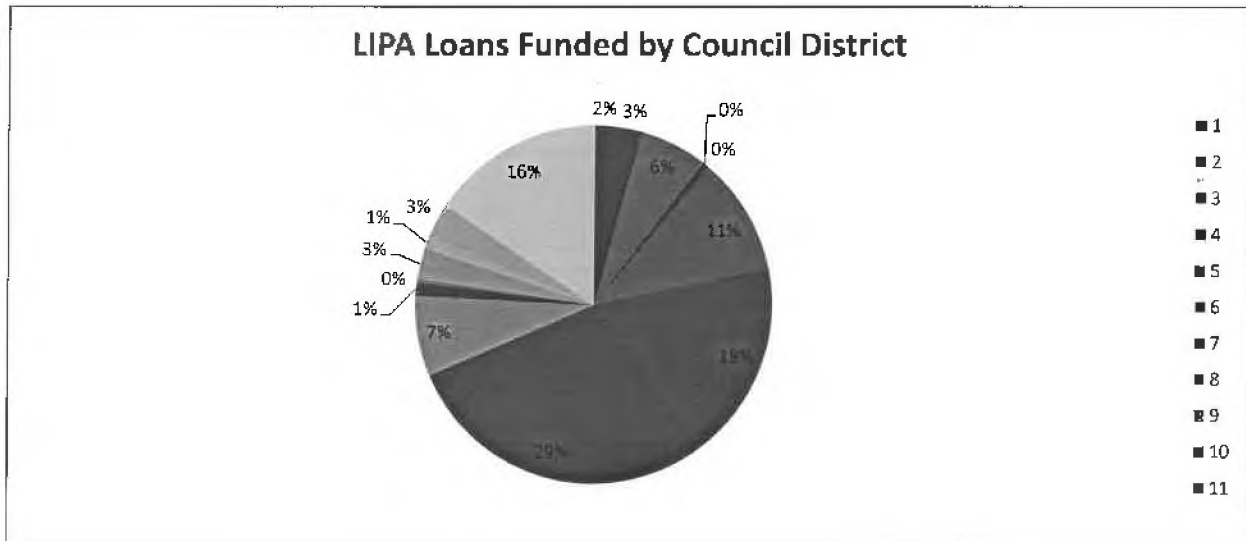
The HCID markets its homeownership programs through a network of real estate professionals and lenders that match eligible home buyers with home sellers in a target price range. HCID holds program training sessions at least four times a year for lenders, realtors, and homebuyer education providers. At least 80 real estate professionals attend each session. HCID also makes presentations to various Realtor Association Groups. Additionally, HCID markets its program to the public through homebuyer fairs and workshops and disseminates program information in City libraries, recreation centers, and through the FamilySource Centers Coordinator. Program flyers are also available at HCID's Public Counter which receives many visitors and renters for matters relating to the City's Rent Stabilization Ordinance (RSO). HCID's web page contains a section on the City's homeownership programs.

HCID is evaluating its marketing efforts and plans to expand its outreach activities by providing information about homeownership programs to faith-based and community organizations, Neighborhood Councils, Council Offices, and the City's largest employers such as the Los Angeles Unified School District and Kaiser Permanente. HCID will also use its social media sites to promote the programs. It is recommended that HCID report to Council regarding this evaluation.

# ATTACHMENT 1

## Low Income Purchase Assistance (LIPA) Loans Funded by Council District April 1, 2011 - March 31, 2016 (Program Years 37-41)

Council District		Funded	Amount	Amount
1	6	1.83%	\$277,377	1.52%
2	8	2.45%	\$450,000	2.46%
3	20	6.12%	\$1,086,753	5.95%
4	1	0.31%	\$60,000	0.33%
5	1	0.31%	\$30,000	0.16%
6	35	10.70%	\$1,930,296	10.57%
7	59	18.04%	\$3,462,680	18.96%
8	94	28.75%	\$5,218,808	28.58%
9	24	7.34%	\$1,336,217	7.32%
10	4	1.22%	\$231,071	1.27%
11	1	0.31%	\$60,000	0.33%
12	9	2.75%	\$503,700	2.76%
13	4	1.22%	\$221,384	1.21%
14	10	3.06%	\$590,543	3.23%
15	51	15.60%	\$2,801,070	15.34%
<b>TOTAL</b>	<b>327</b>	<b>100.00%</b>	<b>\$18,259,899</b>	<b>100.00%</b>

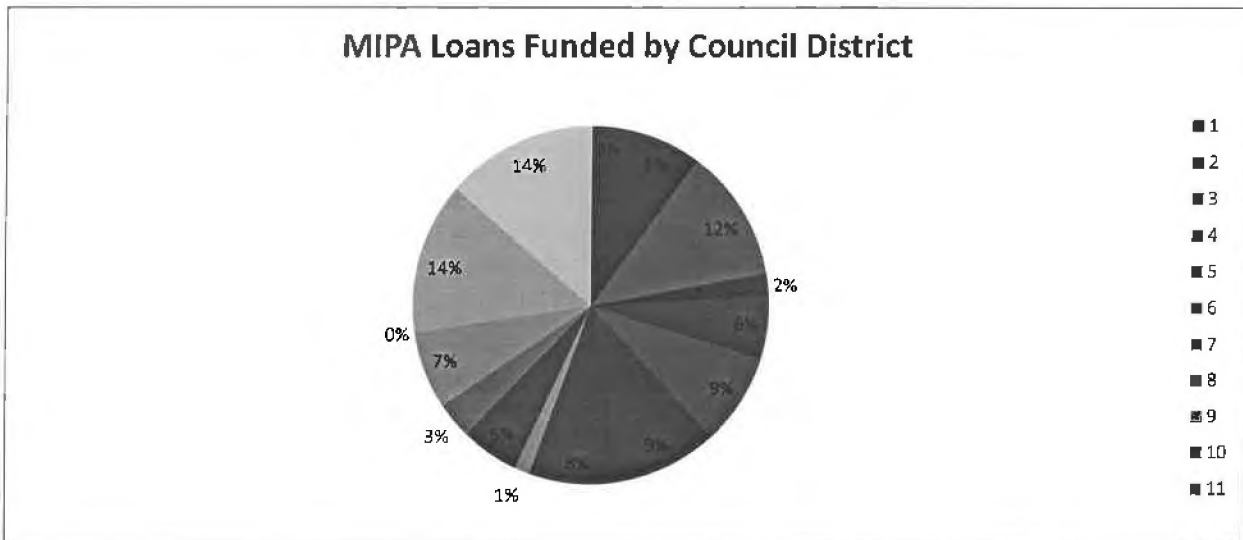


# ATTACHMENT 2

## Moderate Income Purchase Assistance (MIPA) Loans Funded by Council District August 17, 2005 - December 28, 2015\*

Council District		Funded	Amount	Amount
1	11	3.68%	\$836,569	3.81%
2	19	6.35%	\$1,594,777	7.26%
3	36	12.04%	\$2,657,008	12.09%
4	6	2.01%	\$350,560	1.59%
5	17	5.89%	\$1,030,945	4.69%
6	25	8.36%	\$1,773,531	8.07%
7	27	9.03%	\$1,985,710	9.03%
8	25	8.36%	\$1,789,410	8.14%
9	4	1.34%	\$292,175	1.33%
10	16	5.35%	\$1,120,254	5.10%
11	10	3.34%	\$698,434	3.18%
12	21	7.02%	\$1,609,840	7.32%
13	0	0.00%	\$0	0.00%
14	41	13.71%	\$3,080,557	14.01%
15	41	13.71%	\$3,161,090	14.38%
<b>TOTAL</b>	<b>299</b>	<b>100.00%</b>	<b>\$21,980,860</b>	<b>100.00%</b>

\* The vast majority of the loans were funded between the Fall of 2005 and the Fall of 2008.

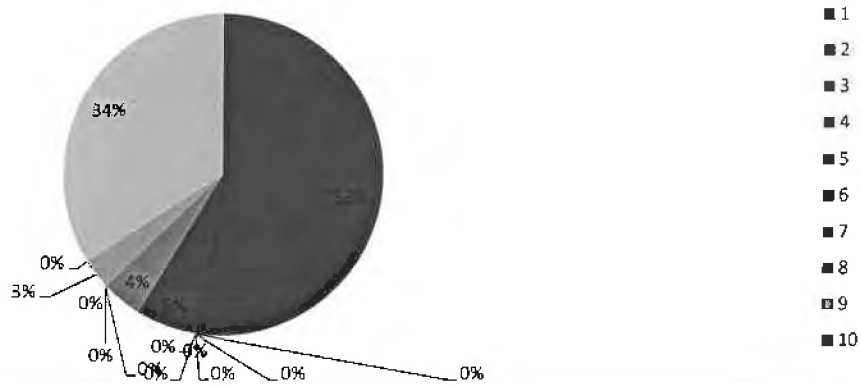


# ATTACHMENT 3

## Forward Commitment (Low and Mod Income) Loans Funded by Council District 2006-2012

Council District		Funded	Amount	Amount
1	51	52.58%	\$4,105,448	43.83%
2	0	0.00%	\$0	0.00%
3	0	0.00%	\$0	0.00%
4	0	0.00%	\$0	0.00%
5	0	0.00%	\$0	0.00%
6	0	0.00%	\$0	0.00%
7	0	0.00%	\$0	0.00%
8	6	6.19%	\$736,950	7.87%
9	4	4.12%	\$458,593	4.87%
10	0	0.00%	\$0	0.00%
11	0	0.00%	\$0	0.00%
12	0	0.00%	\$0	0.00%
13	3	3.09%	\$269,035	2.87%
14	0	0.00%	\$0	0.00%
15	33	34.02%	\$3,799,545	40.56%
<b>TOTAL</b>	<b>97</b>	<b>100.00%</b>	<b>\$9,367,571</b>	<b>100.00%</b>

**Forward Commitment  
Loans Funded by Council District**

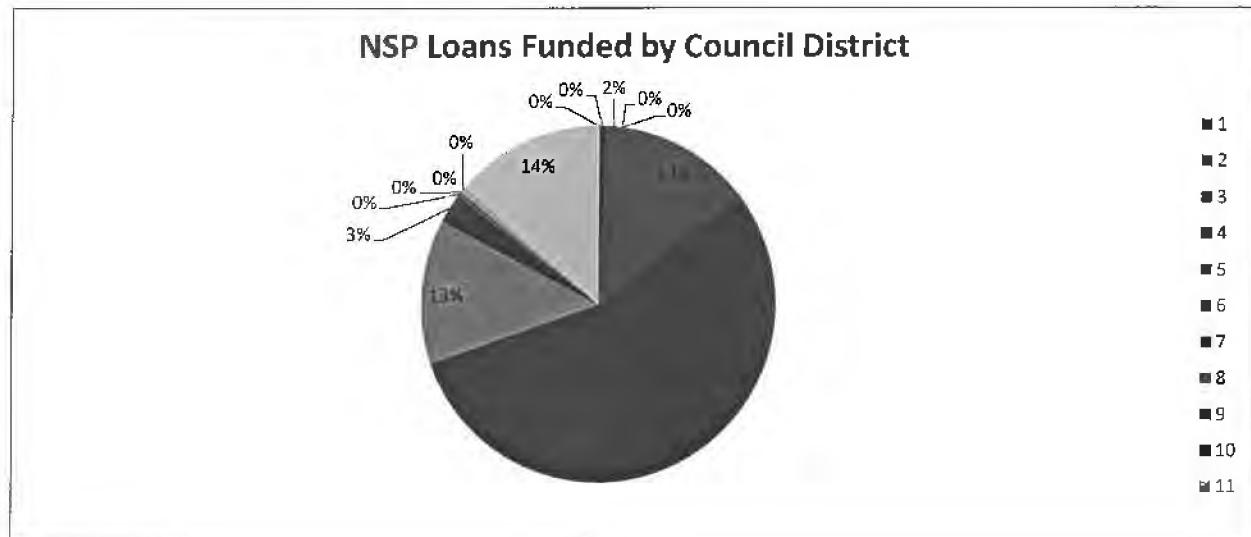




# ATTACHMENT 4

## Neighborhood Stabilization Program (NSP) Loans Funded by Council District 2009-2014

Council District		% of Total Loans Funded	Total Assistance Amount	% of Total Assistance Amount
1	0	0.00%	\$0	0.00%
2	1	0.52%	\$50,000	0.56%
3	3	1.57%	\$171,678	1.94%
4	0	0.00%	\$0	0.00%
5	0	0.00%	\$0	0.00%
6	24	12.57%	\$1,031,661	11.64%
7	39	20.42%	\$1,763,204	19.89%
8	66	34.55%	\$2,956,276	33.35%
9	25	13.09%	\$1,216,546	13.72%
10	5	2.62%	\$248,025	2.80%
11	1	0.52%	\$44,578	0.50%
12	0	0.00%	\$0	0.00%
13	0	0.00%	\$0	0.00%
14	1	0.52%	\$75,000	0.85%
15	26	13.61%	\$1,308,247	14.76%
<b>TOTAL</b>	<b>191</b>	<b>100.00%</b>	<b>\$8,865,215</b>	<b>100.00%</b>



# ATTACHMENT 5

## Mortgage Credit Certificates (MCC) by Council District April 1, 2011 - March 31, 2016 (Program Years 37-41)

Council District	Total MCCs	Funded	Amount	Amount
1	23	3.65%	\$824,560	3.87%
2	15	2.38%	\$501,079	2.35%
3	51	8.10%	\$1,983,001	9.30%
4	6	0.95%	\$232,020	1.09%
5	4	0.63%	\$129,323	0.61%
6	80	12.70%	\$1,150,489	5.40%
7	119	18.89%	\$4,401,128	20.64%
8	139	22.06%	\$4,887,305	22.92%
9	46	7.30%	\$1,686,827	7.91%
10	14	2.22%	\$589,089	2.76%
11	2	0.32%	\$55,800	0.26%
12	29	4.60%	\$1,342,028	6.29%
13	8	1.27%	\$314,385	1.47%
14	13	2.06%	\$524,166	2.46%
15	81	12.86%	\$2,703,215	12.68%
<b>TOTAL</b>	<b>630</b>	<b>100.00%</b>	<b>\$21,324,413</b>	<b>100.00%</b>

