



Meeting Date: 05 / 01 / 2012

<b>ACTION</b>	<b>TYPE OF ITEM</b>
<input type="checkbox"/> Approved Recommendation	<input checked="" type="checkbox"/> Info/Consent
<input type="checkbox"/> Ord. No(s). _____	<input type="checkbox"/> Report
<input type="checkbox"/> Res. No(s). _____	<input type="checkbox"/> Public Hearing (Info/consent)
<input type="checkbox"/> Other _____	<input type="checkbox"/> Other _____

Prepared By: Ruth Johnson Hopkins Agenda Item No. I-3  
 Reviewed By: City Manager [Signature] City Attorney [Signature] Finance [Signature] Other (Specify) \_\_\_\_\_

**DATE:** April 23, 2012

**TO:** City Council

**FROM:** William E. Wilkins, Director  
Housing [Signature]

**SUBJECT:** Affordable Housing and Rehabilitation Division Loan Policies

**RECOMMENDATION**

That City Council approve revisions to the Affordable Housing and Rehabilitation Division loan program policies.

**DISCUSSION**

In 1994, the City first instituted a program to assist qualified buyers to purchase their first home, adopting guidelines for that program on June 7, 1994. Over the years, various other loan programs have been instituted, including programs for purchasers of mobilehomes, and loans for rehabilitation of homes and mobilehomes. The City receives funding from the federal HOME program for the specific purpose of providing loans to first-time homebuyers and funding for rehabilitation of homes. In order to qualify for funding under these programs, applicants must be Oxnard residents who fall within the federal standards as low-income households. Nearly 700 Oxnard families have received assistance as first-time homebuyers under this program, while many more families have received loans for property rehabilitation. The current program policies were adopted by Council on April 8, 2011.

City staff has prepared a revision to the guidelines for the program policies. Those revisions are set forth in the document identified as Attachment No. 1 hereto. The proposed revisions are designed to streamline loan policies among the various programs, ensure that policies are in accordance with the latest federal regulations, and allocate available in order to maximize availability of affordable housing resources for Oxnard residents.

The proposed revisions include five notable elements:

1. Clarify that homebuyer loan programs are designed to provide "gap" financing, rather than a guarantee of a fixed subsidy amount;

2. Implement requirement that rehabilitation loan applicants seek funding from non-governmental lending institutions first;
3. Clarify that first-time homebuyer loans shall be in the form of "silent second" mortgages;
4. For loans with small monthly payments, institute a minimum monthly loan payment of \$25.00;
5. Institute a \$50.00 fee for processing of loan subordination requests.

The following shall provide detail on each of these proposed policy modifications.

The first two items are related. Currently, the Citywide Homebuyer Loan program assists qualified buyers to purchase their first home with a three-to-one matching loan of up to \$30,000. Staff recommends revising the guideline to clarify that such assistance shall be provided as "gap" financing, rather than a guarantee of a fixed dollar amount. Gap financing is defined as the difference between the purchase price of a home and the sum of the maximum loan amount for which the buyer qualifies from a non-governmental lending institution plus the buyer's down payment contribution.

Staff also proposes to institute a requirement that prior to receiving a rehabilitation loan from the city, applicants must first seek the maximum loan for which they are eligible from such non-governmental lending institution. Upon submission of documentation of either a denial or the dollar amount of financing received from such institution, the applicant may apply for a city loan in an amount sufficient to finance the necessary rehabilitation.

Adoption of these first two provisions will ensure that applicants are provided with only the needed funding required to make homeownership attainable, or to finance necessary rehabilitation, and will thus allow the programs to assist more families.

The third proposed change involves protecting the city's investment in the property. In past years, the City has in certain developments provided assistance to qualified homebuyers via provision of a "silent second" mortgage. These silent seconds become due and payable upon any sale, lease unauthorized refinancing, assignment or conveyance, or any interest in the property (whether voluntary or involuntary). Such loans are secured by a Promissory Note and a Deed of Trust recorded on the property as a lien. Staff proposes to utilize silent second mortgages as the preferred financing mechanism, in order to move more buyers into a position to qualify for home purchase, while retaining the City's security interest in the property.

The last two changes arise from the Affordable Housing Division's recent experiences, and reflect staff's effort to reduce at least a portion of the administrative costs associated with loan servicing. There have been several instances where recipients of rehabilitation loans (for repairs to homes or mobilehomes) qualify for a loan which requires a relatively small monthly payment (as low as ten dollars or less). The proposed modification calls for minimum monthly payments of \$25.00, with the loan period reduced commensurately. Said increase will assist in recovering part of the administrative cost of loan servicing, while not disqualifying or creating an undue hardship for any potential loan applicants.

Finally, Affordable Housing staff receives approximately sixty (60) subordination requests annually. Requests for subordinations are received from homeowners that are seeking to refinance their home loans and currently have an outstanding debt with the City. Refinancing must be for purposes of

lowering monthly payments and interest rate, with no increase in the combined principal loan amount and no cash out. Subordination requests are granted dependent upon whether refinancing is permissible in their Promissory Note and/or Deed of Trust. Each request requires dedication of staff time for research and processing. A new minimal fee of \$50.00 is proposed, to help offset the administrative costs. Staff notes that commercial lenders charge fees that range from \$50 to \$100 per request.

### **FINANCIAL IMPACT**

Account No. 295-5163-804-8364 has HOME funds appropriated by Council for the various loan programs administered by Affordable Housing. The proposed changes are not projected to increase program costs. The two changes related to loan servicing (the institution of the minimum \$25.00 payment for small loans, and the \$50.00 fee for subordination request processing) are projected to reduce administrative costs slightly and increase program revenue by approximately \$3000.00 annually, respectively.

RJH/kl

Attachment #1 - Proposed Revisions to Affordable Housing Loan Policies

Note: Attachment #1 has been provided to the City Council under separate cover. Copies for review are Available at the Help Desk in the Library after 6 p.m. on Thursday prior to the council meeting and in City Clerk's Office after 8 a.m. on Monday prior to the Council meeting.

