



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: February 26, 2008

Approved

Date

2-26-08

COUNCIL DISTRICT: 3

SNI AREA: Washington

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING THE DEPARTMENT OF HOUSING TO PROVIDE SOFT SECOND MORTGAGE COMMITMENTS TO HOMEBUYERS AT VILLA ALMENDRA

RECOMMENDATION

It is recommended that the City Council adopt a Resolution approving a funding commitment of up to \$900,000 to provide second mortgages of up to \$60,000 to each moderate-income household purchasing a townhome in the Villa Almendra development, located on the corner of Almaden Avenue and West Alma Avenue.

OUTCOME

Upon approval of this memo, the Department of Housing will immediately make up to \$900,000 available to assist low- and moderate- income homebuyers at Villa Almendra to support homeownership opportunities for up to sixteen first-time homebuyers in San José.

BACKGROUND

Neighborhood Housing Services of Silicon Valley (NHSSV) is the City's primary nonprofit housing partner specializing in real-estate and lending services for low- and moderate-income first-time homebuyers. NHSSV generates a significant portion of its operating income from loan fees it assesses to homebuyers. In an effort to decrease its dependency on funding commitments from the Housing Department, the NHSSV purchased several properties with the intent to develop home ownership opportunities for low income families. As a licensed real estate broker, NHSSV hoped to obtain real estate transaction fees from the sale of the units it developed.

The Villa Almendra development is a 17-unit for-sale townhome project comprised of two- and three-bedroom units that is located on the corner of Almaden Avenue and West Alma Avenue. Construction on Villa Almendra was completed in July 2007. No City funds were applied toward the acquisition or development of this site. Purchase prices for the townhomes were established between \$475,000 and \$660,000.

On behalf of NHSSV, the Housing Department submitted an application for funding assistance from the State. In January, the project was awarded \$510,000 in Proposition 46 funding under the Building Equity and Growth in Neighborhood (BEGIN) program. BEGIN provides low- and moderate-income first-time homebuyers with up to \$30,000 of down payment assistance to be used toward the purchase of their first home. The BEGIN funds awarded to this project must be expended by June 30, 2008.

ANALYSIS

The severe and rapid downturn in the real estate market and tighter lending standards resulting from the sub-prime mortgage crisis, has resulted in few buyers to purchase the Villa Almendra townhomes. Only one unit has been sold to date.

In addition to impacting the Villa Almendra project, the housing market decline has caused NHSSV's loan volume and the associated fee revenue to decrease. Therefore the nonprofit agency does not presently have the cash reserves to pay off the construction loan. In order to satisfy the lender, NHSSV has presented a loan workout proposal that includes a potential reduction in sales price and other buyer incentives. NHSSV is also offering up to \$50,000 in the form of a HomeVenture Loan from the equity generated from the sale of the homes. Each HomeVenture loan will be offered at 0% interest for five years, and then convert to an amortized loan with fixed interest and principal payments over the remaining 25-year term.

As the City's primary nonprofit housing partner specializing in real-estate and lending services for low- and moderate-income first-time homebuyers, NHSSV's financial viability is of paramount importance to the Housing Department. In an effort to assist NHSSV sell the sixteen remaining Villa Almendra townhomes and provide deeper affordability to first-time homebuyers, the Department of Housing is proposing to provide a total of approximately \$900,000 in second mortgage assistance to homebuyers in this development. Prospective homebuyers would be offered up to \$60,000 in the form of a deferred repayment equity-share loan for the three-bedroom units and up to \$50,000 for each two- bedroom unit. In consideration for City funding, each of the assisted units would become an affordable housing unit subject to a recorded affordability restriction.

Besides assisting NHSSV and prospective low-and moderate income buyers of the Villa Almendra townhomes, additional factors support the Housing Department's recommendation for the \$900,000 loan. First, the units are located in the Washington Strong Neighborhood Initiative (SNI) area and the award of City funds supports the objective of increasing homeownership rates in SNI Areas. Second, NHSSV is an integral partner in the City's SNI community improvement efforts and is actively promoting its Housing Education Program (HEP) to SNI communities.

Third, by offering additional City down payment assistance to low-and moderate-income homebuyers, the BEGIN funds awarded to this project would be more likely to be utilized by the upcoming June 2008 deadline.

EVALUATION AND FOLLOW-UP

The Department will report on any progress in the City Manager's weekly report to the Mayor and City Council.

POLICY ALTERNATIVES

To arrive at this proposal, staff also considered the following option:

Alternative #1: *Do not approve assistance for homebuyers in this project.*

Pros: These funds could be used to finance other projects targeted to low- and moderate income households.

Cons: By authorizing a funding commitment to homebuyers at Villa Almendra, the City is encouraging future homebuyers to purchase a home in the Washington SNI area. In addition, the BEGIN funds awarded to income-eligible homebuyers in this project have an improved chance of being utilized by the BEGIN contract deadline of June 30, 2008, and avoid having to be sent back to the State.

Reason for Not Recommending: Villa Almendra provides an opportunity for moderate-income homebuyers to purchase a new home in the Washington SNI area.

PUBLIC OUTREACH/INTEREST

Although this notice does not meet any of the criteria below, this memo will be posted to the City Council Agenda for March 18th via the City's website. If approved, the Housing Department will work with NHSSV to market the City funds to prospective homebuyers at Villa Almendra.

- **Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the most recent Council-adopted "Five-Year Housing Investment Plan for FY 2007/2008 through FY 2011/2012," which sets forth a goal of providing at least 553 new low- and moderate-income homebuyers with down payment assistance over the next five years. Further, the usage of funds for downpayment assistance in new construction projects is consistent with the City's For-Sale Housing policy, adopted in 1988, which authorizes a forward commitment of second mortgages to future residents in for-sale developments.

COST SUMMARY/IMPLICATIONS

1. **COST OF PROJECT:** N/A--Not a Project

2. **COST ELEMENTS OF CITY LOAN(S):** Not to exceed \$900,000

<u>Uses</u>	<u>Amount</u>
Downpayment Assistance	<u>16 loans totaling \$900,000</u>
TOTAL	\$900,000

3. **SOURCE OF FUNDING:** Fund 443--the Low and Moderate Income Housing Fund.

4. **FISCAL IMPACT:** No ongoing fiscal impact.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	Ordinance Page	Last Budget Action
443	0070	Loans, Grants and Site Acquisition	\$39,000,000	\$900,000	Section 23.01, page 2	1/22/08

CEQA

Not a project.

LESLYE KRUTKO
Director of Housing

For questions, please contact Jacky Morales-Ferrand at 408.535.3855.