



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Krutko  
Jennifer A. Maguire

**SUBJECT:** SEE BELOW

**DATE:** February 9, 2009

---

2-11-09

---

**COUNCIL DISTRICT:** City-wide  
**SNI AREA:** All

**SUBJECT: REVISIONS TO THE TEACHER HOMEBUYER AND SAN JOSÉ STATE  
FACULTY AND STAFF HOMEBUYER PROGRAMS**

## RECOMMENDATION

It is recommended that the City Council:

1. Adopt a resolution to modify the Teacher Homebuyer Program (THP), adopted by the City Council on April 4, 2000, as follows:
  - a. Decrease the maximum loan amount from \$40,000 to \$35,000 for households earning between 90% and 120% of Area Median Income; and
  - b. Decrease the maximum loan amount from \$65,000 to \$50,000 for households earning less than 90% of Area Median Income, and;
2. Adopt the following amendments to the 2008-2009 Appropriation Ordinance in the Low and Moderate-Income Housing Fund (Fund 443):
  - a. Increase the Teacher Homebuyer Program Appropriation by \$500,000; and
  - b. Decrease the Loan Management Appropriation by \$500,000; and
3. Adopt a resolution to modify the San José State University Faculty and Staff Homebuyer Program (FSHP), adopted by the City Council on January 10, 2006, to decrease the maximum loan amount from \$60,000 to \$50,000 for low- and moderate-income households.

February 9, 2009

**HONORABLE MAYOR AND CITY COUNCIL**

**Subject: Revisions to THP & SJSU Homebuyer Programs**

Page 2

4. Authorizing the Director of Housing to negotiate and execute any necessary agreements, amendments, or other documents with SJSU, or its affiliate, related to the program modification.

### **OUTCOME**

Approval of this recommendation will allow the Housing Department to revise THP and FSHP loan amounts to reflect current housing prices so that the City does not provide subsidies in excess of the amount necessary to assist teachers and SJSU staff obtain homeownership. The THP budget will also be augmented to meet the projected demand for loan subsidies.

### **BACKGROUND**

On June 29, 1999, the City Council approved the creation of the Teacher Homebuyer Program with the goal of recruiting and retaining public school teachers in the City of San José. On January 6, 2006, the City Council approved the creation of the San José State University Faculty and Staff Homebuyer Program (FSHP) to further a similar goal with respect to SJSU faculty. These programs function by providing second mortgage financing at favorable loan terms that make it possible for homebuyers to secure first mortgage financing that they might otherwise not have been able to obtain.

#### **Teacher Homebuyer Program**

The THP has an annual budget of \$4 million. Since the Program's inception, the maximum loan amounts have been amended several times as a result of changes in the housing market and City budget constraints. In April 2000, the maximum loan amount was raised from the initial amount of \$7,500 to \$40,000 per household. In 2003, during more favorable market conditions and at the height of the program's popularity, the City's budget shortfall caused severe funding constraints and the City Council reduced maximum loan amounts for moderate income households from \$40,000 to \$25,000.

However, as home prices rose in 2004 and 2005, many low and moderate-income homebuyers were priced out of the market. Demand for THP loans thus plunged to an all time low and budgeted funds were underutilized. Therefore, on September 20, 2005, the City Council authorized an increase in the maximum loan amounts from \$25,000 to \$40,000 for moderate-income households and from \$40,000 to \$65,000 for lower-income households. The current loan limits have been in place since September 2005.

In November 2008, the City Council approved an expansion of the THP to include other credentialed staff in public schools as eligible participants. The likely result of the broadened pool of buyers will increase the demand for the program.

February 9, 2009

**HONORABLE MAYOR AND CITY COUNCIL**

**Subject: Revisions to THP & SJSU Homebuyer Programs**

Page 3

SJSU Homebuyer Program

On January 6, 2006, the City Council approved the creation of the San José State University Faculty and Staff Homebuyer Program (FSHP). The maximum loan amount was set at \$60,000 for both low- and moderate-income households and has not been modified since the inception of the program. Funding for the loans is equally divided between San Jose State University (SJSU) and the City of San José. As originally established, the FSHP was available only to full-time, newly hired “tenure track” faculty. On October 16, 2007, City Council approved the expansion of the Program to include all full-time faculty and staff.

ANALYSIS

Reduced Loan Amounts

Since the City Council approved the current THP loan limits in 2005, the median price for a single-family home has fallen sharply. The median price for a single-family home in San José declined 15.3% between 2005 and 2008. The median price for condominiums and townhomes fell 13.1% during the same period.

<b>Median San José Prices</b>	<b>2005</b>	<b>2008</b>	<b>% Change</b>
Single-Family Home	\$682,655	\$578,341	15.3%
Attached Condos/Townhomes	\$432,083	\$375,500	13.1%

While home foreclosures have also increased during this time, the overall decline in home prices has enabled new homebuyers to enter the market for the first time. The lower home prices, combined with recent City Council actions that have expanded the THP and FSHP programs have resulted in increased demand for the City’s homebuyer programs.

Prudent management of City resources necessitates that the loan amounts offered to low- and moderate-income homebuyers be adjusted to reflect the dramatic change in home values and increased program volume. Lowering the loan amounts ensures that the City is able to serve a greater number of first time homebuyers.

Therefore, the Housing Department recommends decreasing the maximum loan limits for THP from \$40,000 to \$35,000 for moderate-income families and from \$65,000 to \$50,000 for lower-income families. The recommended loan amounts were developed after considering projected home values over the next twelve months and the corresponding subsidy that most THP and FSHP applicants would need to obtain homeownership. In order to maintain consistency between programs, Housing Department staff is recommending a similar decrease to the maximum loan limit from \$60,000 to \$50,000 for FSHP participants.

### Increase to THP Budget

Through the end of January 2009, the City committed approximately \$2.8 million of the \$4 million appropriation for THP funds. Assuming the current rate of demand, it is likely that existing THP funds will be exhausted by April 2009. While the proposed reduction in loan amounts will maximize existing funds, this action by itself will not make enough impact to carry the program through the end of FY 2008-2009. When the current budget becomes fully committed, the City will either need to either supplement the THP with additional housing funds or cease approving any new loans until Fiscal Year 2009-2010.

A temporary shut down of the THP Program could potentially jeopardize home purchases for applicants who may be in the process of securing mortgage financing during this period. Therefore, Housing Department staff recommends avoiding this scenario by increasing the current THP appropriation by \$500,000. The proposed increase to the THP budget will allow the City to continue to offer the THP through the end of FY 2008-2009 without having to temporarily shut down the program. The increase in THP funding will be funded from savings in the Housing Department's Loan Management budget.

### EVALUATION AND FOLLOW-UP

No further City Council Action will be required at this time. The Department will continue to periodically post homeownership loan summaries on its website.

### POLICY ALTERNATIVES

To arrive at this proposal, staff considered the following options:

**Alternative #1:** *Do not approve the reductions in per-unit second mortgage amounts and do not approve an increase in the THP budget for FY 2008-2009.*

**Pros:** The City would continue to prioritize homeownership for teachers and SJSU staff without reducing the maximum amounts. The larger second mortgage amounts might enable families with less savings to purchase homes in San José. Once THP funds were exhausted, the program's budget would be replenished at the beginning of FY 2009-2010.

**Cons:** At the current rate of demand, the THP budget will be out of money before the end of the fiscal year. Once the current funds are committed, Housing staff will not be able to approve any new loans, causing the program to temporarily shut down, until funds could be replenished in Fiscal Year 2009-2010.

**Reason for not recommending:** The THP and SJSU Programs are successful tools that help local educators purchase homes in the communities they serve. Implementing reduced loan amounts and modifying the THP budget will help extend the availability of the program, and avoid adversely impacting new homebuyers who are dependent upon City financing.

**PUBLIC OUTREACH/INTEREST**

- 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)**

This item meets 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. This Memorandum will be posted to the City's website for the March 3, 2009, Council Agenda and specific efforts will be made to inform the San José City-Schools Collaborative, the Santa Clara County Association of Realtors, Neighborhood Housing Services of Silicon Valley, the City's list of for-sale housing developers, and to the many individual loan agents and mortgage brokers assisting teachers obtain mortgage financing.

**COORDINATION**

This report has been coordinated with the Office of the City Attorney.

**FISCAL/POLICY ALIGNMENT**

This expenditure is consistent with the Housing Department's *Five-Year Investment Plan for Fiscal Years 2007/08-2011/12*, which describes the process of reviewing the City's comprehensive strategy for homeownership programs to determine how to increase the number of participants while still maximizing leveraging of other private and public funds.

**COST SUMMARY/IMPLICATIONS**

1. **COST OF PROJECT:**

THP Annual Budget	\$4,500,000
SJSU Annual Budget	\$1,460,000
  
2. **COST ELEMENTS OF CITY LOAN AMOUNTS:**

Maximum Second Mortgage Loan Amounts	\$35,000-\$50,000
--------------------------------------	-------------------

