

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: February 17, 2009

Approved

Date

2-17-09

COUNCIL DISTRICT: All
SNI AREA: All

SUBJECT: INCREASE IN WELCOMEHOME HOMEBUYER PROGRAM FUNDING

RECOMMENDATION

It is recommended that the City Council:

1. Adopt the following amendment to the 2008-2009 Appropriation Ordinance in the Home Investment Partnership Program (HOME) Fund 445:
 - a. Increase the WelcomeHOME appropriation by \$600,000; and
 - b. Decrease the Home Loans and Grants appropriation by \$600,000

OUTCOME

Upon approval of this memo, an additional \$600,000 in Federal HOME funds will be made available to lower-income first-time homebuyers for downpayment assistance loans in the WelcomeHOME Program.

BACKGROUND

In December 2007 and October 2008, the City of San José was awarded \$1 million and \$1.5 million respectively, in CalHOME Program funds - a California general obligation housing bond program passed by the voters in 2006. From each of these awards, \$500,000 is to be used to make mortgage assistance loans for lower-income first-time homebuyers. A maximum of 20 new lower-income first-time homebuyers would be assisted through the Program from the first \$500,000 allocation. The CalHOME mortgage assistance program was subsequently renamed the WelcomeHOME Program.

San José. By statute, CalHOME loan repayments from the WelcomeHOME Program are recycled into a separate reuse account to be used solely for future CalHOME eligible activities.

The Welcome HOME Program was launched in August 2008. By late-September, the Housing Department realized that the CalHOME grant award was quickly being utilized. The WelcomeHOME budget was supplemented with \$1 million in federal HOME funds through the Department's annual budget clean-up. The current WelcomeHOME budget is made up of two sources: \$500,000 in State CalHOME funds in the Multi-Source Housing Fund (Fund 448), and \$1 million in federal HOME funds (Fund 445), for a total of \$1.5 million.

ANALYSIS

The WelcomeHOME Program was created to help homebuyers by providing a deferred downpayment assistance loan for lower-income first-time homebuyers, encouraging homeownership in San José and indirectly contributing to neighborhood stabilization. The recent and rapid decline in housing prices has resulted in new homeownership opportunities for low- and moderate-income homebuyers in the City of San José. While lending standards remain tight, some lower-income first-time homebuyers with good credit and stable employment are now able to enter the housing market for the first time in many years.

The Program has been very well received thus far by the City's real estate community, builders and developers, and other key partners, including Neighborhood Housing Services Silicon Valley (NHSSV). Since the initial launch of the Program, demand for funds has been approximately eight households per month. However, activity over the last few months has risen substantially. While it is unclear if the current rate of demand will hold steady through the later part of FY 2008-2009, the majority of available WelcomeHOME funds have already been committed to new homebuyers.

In addition, because of the recent freeze on State infrastructure funds, the City can no longer continue its practice of advancing WelcomeHOME Program loans from State CalHOME funds because the State is unable to process reimbursement invoices from local jurisdictions. Therefore, from the \$1.5 million total budget, only \$325,000 is currently available for the remainder of FY 2008-2009. This amount will provide homeownership opportunities for approximately thirteen new families in the City of San José. Without an increase in the WelcomeHOME budget, Program funds are expected to be depleted by mid-March 2009, and the Program will be forced to be temporarily suspended until the start of FY 2009-2010.

The table below illustrates the current Program budget and remaining funding through the end of FY 2008-2009:

February 17, 2009

Subject: Increase in WelcomeHOME Program Funding

Page 3

Fund	Program Budget	Amount Committed	Amount Remaining	Available for Loans
448-Multi Source Housing Fund	\$500,000	\$350,000	\$150,000	\$0 (currently frozen)
445-HOME	\$1,000,000	\$675,000	\$325,000	\$325,000

In an effort to continue to be able to offer the WelcomeHOME Program to lower-income first-time homebuyers beyond March 2009, the Housing Department recommends augmenting the WelcomeHOME budget by \$600,000 in Fund 445. The current Federal HOME Loans and Grants appropriation of \$9,150,700 is made up of both previous and the current years grant funds. The Home Loans and Grants project budget is expected to be underutilized through FY 2008-2009, as other multi-family affordable housing projects have experienced unforeseen delays due to the State's budget crisis and tightened private equity and credit markets. Therefore, a \$600,000 transfer from the HOME Loans and Grants Program budget to the WelcomeHOME budget will not significantly affect the viability of any other affordable housing project with commitments of HOME funds.

Approval of this recommendation will enable the WelcomeHOME Program to continue to assist lower-income homebuyers purchase their first home in the City of San José. The utilization of HOME funds for this purpose will also improve the City's ability to meet its annual HOME Program commitment and expenditure deadlines.

EVALUATION AND FOLLOW-UP

No follow-up is required. Upon approval of this memo, the Housing Department will continue to make downpayment assistance loans through the WelcomeHOME Program. On-going loan volume is tracked and reported to the Mayor and City Council through the Homebuyer Program Quarterly Production Report.

POLICY ALTERNATIVES

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

Alternative #1: *Do not increase the WelcomeHOME budget by \$600,000.*

Pros: Federal HOME funds may be used for an alternate HOME approved activity such as financing for multi-family rental housing.

Cons: Without additional funds, the WelcomeHOME downpayment assistance budget will be depleted by mid-March 2009. If this recommendation is not approved, Housing Department staff must make an immediate announcement that the WelcomeHOME Program will be shut down until FY 2009-2010-- even as some lenders who have been working with buyers of newly constructed units and bank owned properties pull together new

mortgage packages. Many of these lower-income homebuyers are dependent upon the availability of WelcomeHOME funds to close their deals, and a lack of downpayment assistance funds could jeopardize many future sales transactions.

Reason for Not Recommending: By encouraging homeownership in a down market, the local housing market is stimulated by new homebuyers purchasing and occupying both new and existing vacant homes. An increase in funding for homeownership activities at this time is sound public policy and should be supported.

PUBLIC OUTREACH/INTEREST

The item does not meet any of the criteria below, however; this item will be posted on the internet via the City Council’s website for the March 10, 2009 meeting.

- 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

The preparation of this report has been coordinated with the Office of the City Attorney and the Office of the City Manager.

FISCAL/POLICY ALIGNMENT

This recommendation is aligned 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 financing for 553 new homebuyers over a five year period.

COST SUMMARY/IMPLICATIONS

1. **AMOUNT OF RECOMMENDATION/COST OF PROJECT:** \$600,000
2. **COST ELEMENTS:** 24 loans at \$25,000 each

February 17, 2009

Subject: Increase in WelcomeHOME Program Funding

Page 5

- 3. **SOURCE OF FUNDING:** Federal HOME Funds
- 4. **FISCAL IMPACT:** This is a one-time action only. There is no ongoing fiscal impact to the General Fund as a result of this action.

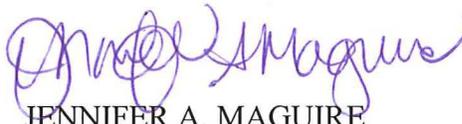
BUDGET REFERENCE

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2008-2009 Adopted Operating Budget Page	Last Budget Action
445	3670	Welcome Home Program	1,000,000		N/A	10/21/2008, 28422
445	0070	Loans and Grants	9,150,700		XI - 43	10/21/2008, 28422

CEQA

Not a project.


LESLYE KRUTKO
Director of Housing


JENNIFER A. MAGUIRE
Budget Director

For Questions, please contact Leslye Krutko, Director of Housing at (408) 535-3851.