



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: April 1, 2009

Approved

Date

4-6-09

COUNCIL DISTRICT: City-wide
SNI AREA: All

SUBJECT: APPROVAL OF A GRANT AGREEMENT WITH NEIGHBORHOOD HOUSING SERVICES OF SILICON VALLEY (NHSSV) FOR LOAN EDUCATION AND COUNSELING SERVICES

RECOMMENDATION

It is recommended that the City Council:

1. Adopt a Resolution authorizing the Director of Housing to negotiate and execute a grant agreement with NHSSV in the amount of \$250,000 for operational support of NHSSV's loan education and counseling services associated with the City's Homeownership Program; 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 Housing Department's Non-Personal/Equipment appropriation by \$250,000; and,
 - b. Decrease the Loans Grants and Site Acquisition appropriation by \$250,000.

OUTCOME

By approving the proposed recommendations, NHSSV can continue to provide homeownership education and counseling services to assist low- and moderate- income households purchase homes throughout the City. NHSSV will also be able to provide foreclosure prevention outreach and other services aimed at mitigating blight associated with bank foreclosures on owner-occupied and rental properties in SNI areas.

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BACKGROUND

Neighborhood Housing Services Silicon Valley is a congressionally-chartered NeighborWorks organization and a local 501(c)(3) nonprofit corporation specializing in programs and services that promote and support affordable homeownership and neighborhood revitalization in San José. In the mid-1990s, the City requested that NeighborWorks America support the establishment of a local affiliate in the City of San José. Since 1999, NHSSV has been the City's primary nonprofit housing partner specializing in homebuyer education, counseling, lending and other real estate-related services for low- and moderate-income homebuyers. Through the Housing Department, the City has provided financial assistance to support the organization.

NHSSV is also a partner of the local Don't Borrow Trouble Silicon Valley campaign, designed to increase awareness and education about predatory lending practices in Silicon Valley. NHSSV has also been at the forefront of addressing the loan foreclosure issue. It has established a foreclosure prevention program that has three full-time foreclosure counselors. Over the last decade, NHSSV has provided thousands of prospective homebuyers with pre-purchase homebuyer education and has provided lending and real estate services for hundreds of first time homebuyers. NHSSV earns fees for lending and real estate brokerage services when assisted homebuyers close their loans that partially offset its operating costs.

In addition to providing these services on a City-wide basis, NHSSV also promotes responsible homeownership in SNI Areas. NHSSV actively promotes its services in these areas and conducts informational seminars and sponsors community building activities as a vehicle to provide information that assists residents on the path to responsible homeownership and increase awareness of predatory lending practices.

History of the City's Contribution to NHSSV's Operating Budget

Since NHSSV's inception, the City has periodically provided financial assistance to help cover the organization's operating expenses. In addition to providing general operating support, the City and NHSSV have entered into various contracts for services such as; salary costs for a foreclosure prevention counselor and administrative costs related to a separate federally funded downpayment assistance program. The Redevelopment Agency has also provided operating assistance for the Housing Education Plan and Paint Program in SNI areas.

Since FY 2000-2001, the City has provided over \$5.04 million in operating support. This figure includes \$1.3 million that was transferred from the HomeVenture Fund via the Seventh Amendment to the HomeVenture Fund Agreement per City Council approval on October 30, 2007. The HomeVenture Fund was funded by the City as a source of lending capital for NHSSV. NHSSV requested the \$1.3 million to offset a budget deficit. The City and NHSSV are developing a plan to address repayment as discussed in this memorandum.

ANALYSIS

Operational Support for NHSSV Programs

As the City's primary homeownership partner, NHSSV specializes in products and services targeted to the needs of low- and moderate-income first-time homebuyers. NHSSV has a real estate brokerage license which allows them to offer below- market interest rate loans and deferred second mortgage programs for qualified households in San José. NHSSV earns fees for lending and real estate brokerage services when assisted homebuyers close their loans. However, these fees are not sufficient to cover the extensive counseling that is required to help applicants attain financial readiness or prepare them for the responsibilities of home ownership.

In FY 2007-08, the City provided \$230,000 to fund NHSSV's education and outreach services. A portion of these funds were used to establish NHSSV's Foreclosure Prevention Program. In FY 2008-09, NHSSV will receive approximately \$239,500 in Federal funding through the NeighborWorks America organization to help fund its Foreclosure Prevention and Homebuyer Education Program. In FY 2009-10, NHSSV is expected to receive approximately \$360,000 from NeighborWorks America to help fund its Foreclosure Mitigation program.

The Housing Department is proposing to provide \$250,000 to fund NHSSV's homeownership education and counseling services. NHSSV is expected help secure fixed- rate first mortgages for approximately fifty new households during the fiscal year. Each loan applicant must complete a homebuyer education training course prior to assuming a loan. Additionally, many applicants require extensive home-ownership readiness counseling prior to being able to qualify for a loan. Therefore, NHSSV must provide counseling to a far greater number of individuals than those that are able to purchase homes in any given year.

As mentioned, the fees collected from processing loans help pay for NHSSV's loan processing costs but do not compensate for the education and counseling services. These are services that no private lender is willing to fund due to the lack of a revenue source. Therefore, it is appropriate for the Housing Department to assist NHSSV with the cost of providing these services in order to meet the City's goal of helping low-income families attain homeownership.

If approved, the recommended funding will be applied to the current fiscal year. These funds were not requested to be approved earlier in FY 2008-09 because the Housing Department was assessing the requirements of potential funding sources pertaining to the services that can be funded from those sources. This assessment has been completed and it is appropriate to fund these services from the recommended funding source.

Upon approval of this recommendation, the Director of Housing will negotiate and execute an agreement with NHSSV for \$250,000 to fund the services previously described. The agreement will contain workload and performance reporting requirements that NHSSV must meet in order to receive payments under the agreement.

It should be noted that NHSSV has also requested funding from the Redevelopment Agency for FY 2008-09. The Redevelopment Agency is processing a request to fund \$250,000 for foreclosure prevention outreach and blight mitigation services in SNI areas. It is anticipated that City staff will be bringing a recommendation to City Council in the near future to appropriate the Redevelopment Agency funds to the Housing Department.

Update on NHSSV's Financial Situation

NHSSV continues to face financial hardships as it deals with the downturn in the housing market and the inability to sell several properties that it had purchased for development. NHSSV previously obtained City approval to delay repayment of \$1.3 million that it borrowed from the HomeVenture Fund. This City-funded capital account is used by NHSSV to fund second mortgages for low- and moderate-income homebuyers. Although NHSSV has been actively marketing its real estate assets, the sale of these properties has not transpired due to the current market conditions. The Housing Department is working with the nonprofit organization to develop a financial strategy to ensure the continued financial viability of this important City partner.

EVALUATION AND FOLLOW-UP

The Housing Department will complete its assessment of NHSSV's financial position in the next few months and return to City Council with a report on its findings. This will be provided via an information memo.

POLICY ALTERNATIVES

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

Alternative #1: *Do not approve the Housing Department's request for \$250,000 to support lending.*

Pros: The \$250,000 proposed for loan education and counseling services could be applied to other housing projects.

Cons: The City would have to find another partner to provide comprehensive homeownership services or discontinue some or all of its homeownership programs for low- and moderate- income households.

Reason for not recommending: NHSSV has been a long-time partner of the City and promotes affordable and responsible homeownership opportunities and education for prospective first time homebuyers. NHSSV's community outreach team and neighborhood programs contribute to neighborhood improvement and revitalization goals. It is in the City's best interests to ensure NHSSV's continued financial viability.

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 April 14 via the City's website.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- 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.
- Criterion 3:** Consideration of proposed changes to service delivery, programs, or staffing that may have impacts to community services and have been identified by staff, the Board or Council, or a community group that requires special outreach.

COORDINATION

This report has been coordinated among the Housing Department, the Redevelopment Agency, and the Office of the City Attorney.

FISCAL/POLICY ALIGNMENT

The recommendations are aligned with the strategies described in the City's Consolidated Plan for years 2005-2010, which encourages the strengthening of the City's partnership with NHSSV and expansion of its Homeownership Center.

COST SUMMARY/IMPLICATIONS

1. **AMOUNT OF RECOMMENDATION/COST OF PROJECT:** \$250,000
2. **COST ELEMENTS:** Operational support of NHSSV's loan education and counseling services associated with the City's Homeownership Program;
3. **SOURCE OF FUNDING:** Low and Moderate Income Housing Funds (20% funds)
4. **FISCAL IMPACT:** This is a one-time action. There is no ongoing fiscal impact to the General Fund as a result of this action.

The City will provide \$250,000 from Low and Moderate Income Housing Funds (20% funds) that are required be used for low-income housing programs. Funds are available in the Housing Loans, Grants and Acquisitions appropriation. This has occurred because projects originally anticipated to be funded by the Housing Department have not moved forward due to the decline in private lending and State funding available for affordable housing developments.

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BUDGET REFERENCE

Fund #	Appn #	Appn Name	Total Appn.	Amount for Contract	2008-2009 Adopted Budget Page	Last Budget Action, Date Ord.No.
443	0070	Housing Loans, Grants and Acquisitions	\$50,000,000	\$250,000	XI-52	2/10/2009 28492

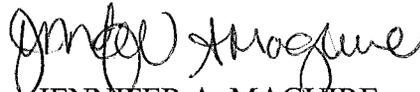
CEQA

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.