MEMORANDUM

DATE: 4/3/2019

TO: Affordable Housing Subcommittee

FROM: Julia Ayres, Associate Planner and Michael Roush, Legal Counsel, via Clay Holstine, City Manager

SUBJECT: **Brisbane Housing Authority First Time Homebuyer Program Update**

Background

In February 2018, the Housing Authority received its first ever resale notice for a home purchased with a First Time Homebuyer Program ("Program") loan. When no purchasers meeting the Program's eligibility criteria were identified after a six month search, the Housing Authority exercised its option to purchase the home and sell it to an eligible purchaser to allow the current owner to move.

Subsequently, in November 2018 the Housing Authority amended the Program to increase the maximum affordable housing cost for higher earning households in each income category, to assist interested applicants to qualify. In January 2019, staff reopened the application window to purchase the resale unit. Unfortunately, though several eligibility applications were submitted, only one applicant qualified for a silent second loan under the Program and ultimately did not qualify for a first mortgage to purchase the resale unit.

Discussion

Over the two rounds of accepting applications, staff observed that primarily low income households (earning less than $82,200 for a one-person household or $93,950 for a two-person household) were applying for the Program loan. A few moderate income households (earning between $82,200 and $99,450) were initially interested but ultimately withdrew their applications due to the resale restriction provisions and other aspects of the program.

Given these observations, staff has identified additional Program modifications to assist in its sale of the currently available resale unit, and to ensure that future loans made under the Program are not similarly encumbered.

1. **Flexibility in Sales Price**. As a condition of the Program loan, a home may appreciate only as much as the area median income increases between purchase and resale dates. This essentially turns what was a market rate unit into a "below market rate" (BMR) unit. This presents a challenge for resale of the unit in a variety of ways.

   First, even the resulting restricted sales price (for example, $500,000) exceeds traditional BMR sales prices (typically in the $300,000-$400,000 range in San Mateo County), which means it still may be beyond the means of most low income households and some moderate income households. Second, the required 3% down payment and ongoing property taxes are based on the sales price of the unit. This means that buyers of a resale unit will pay a down payment and higher property taxes relative to the amount of their first mortgage, unlike BMR homebuyers who are purchasing a less costly home and will have proportionally lower down payment and property tax assessments.

To address these resale challenges, staff suggests modifying the Program to allow the City flexibility in setting the sales price of a resale unit to reflect a price that is affordable to lower income households, only if and after the Housing Authority exercises its option to buy the property from the seller at the standard restricted resale price. This could result in financial losses to the Authority as the amount of the original silent second loan may never fully be recaptured, but could also result in a speedier purchase process for otherwise eligible applicants on the Program's waiting list.

2. **Consistency with First Mortgage Lender Requirements**. The Program's first mortgage lender, Boston Private, has certain eligibility requirements that are not reflected in the current Program manual relative to the maximum affordable housing cost and minimum credit score requirements. It is recommended that the Program manual be updated consistent with the lender's requirements to ensure applicants undergoing eligibility verification for a Program loan will also be eligible for a first mortgage.

3. **Source of Down Payment Funds**. The Program requires the 3% minimum down payment to be funded from the applicant's own funds. However, given the increase in real estate costs in recent years, even a 3% down payment on a market rate unit may be unachievable for a low or moderate income household. Staff thus suggests that the Program be amended to allow up to 1% of the down payment to come from grants or forgivable loans, if acceptable to the first mortgage lender.

4. **Adjust Income Calculation**. Currently the Program requires any assets in excess of $5,000 be counted toward the household's income calculation. The City's consulting realtor, who manages the City of San Mateo's Below Market Rate program, has indicated that this limit is low compared to other programs. It also penalizes households who have saved enough for a down payment and closing costs by inflating their income levels and potentially making them ineligible for assistance. Thus, it is suggested that this income criterion be adjusted to only apply to assets in excess of $60,000.

5. **Expand Eligibility Criteria**. The Program is limited to first time homebuyers who 1) Live in Brisbane, or 2) Work in Brisbane, or 3) Have an immediate family member who has lived in Brisbane, or 4) Works for a school district serving Brisbane. Staff notes that this may present certain Fair Housing law issues, and suggests that the Program be modified to identify those criteria as preferences but not exclusive limiting factors for potential applicants.

6. **Allow Authority to Waive Shared Appreciation**. Shared appreciation is the amount resulting from dividing the Authority loan by the original purchase price, multiplied by the appreciation amount. For example, if the silent second loan was $200,000 and the original purchase price was $500,000, the Program loan represents 40% of the purchase price. If the home appreciates by 20% or $100,000, the homeowner must pay 40% of appreciation, or $40,000, to the Authority, in addition to repaying the $200,000 loan.

Shared appreciation may be a disincentive for first time homebuyers purchasing a resale unit under the Program who may only reside in the unit for 5-10 years, as typical for a traditional first time homebuyer. Upon resale, these households would be entering a market with high sales prices armed only with a portion of the limited appreciation they are allowed to accrue under the Program, in addition to any equity they have accrued in that short time frame. To address this challenge, staff suggests amending the Program to allow the Authority to waive or reduce its share of the shared appreciation if the seller resides in the home for a relatively short period of time (for example, ten years or less).

To provide context to this issue, it should be noted that the area median income in San Mateo County increased by almost 20% from 2009-2018, while median single-family home prices in the County increased by almost 130%.[1]

Recommendation

Staff recommends that the subcommittee consider these modifications and provide direction to staff to draft Program amendments for consideration by the Brisbane Housing Authority at a subsequent public meeting.

Attachments:

1. First Time Homebuyer Program Manual, adopted November 2018

[1] San Mateo County Association of Realtors 2009 and 2019 sales data shows a median single-family sales price of $678,750 in 2009 and $1,580,000 in 2018. Reference: https://www.samcar.org/market-data.htm