



DATE: January 10, 2018

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT: Home Assistance Purchase Program for Employees

RECOMMENDATION

That the Council Budget and Finance Committee (CBFC) reviews and comments on information presented in this staff report to assist staff in developing next steps.

BACKGROUND

Hayward, like other areas in the region, is experiencing challenges with housing stock availability and affordability given the continuous increase in home prices, both of which are symptomatic of and contributors to the regional “housing crisis.” The median home price in Hayward is \$625,100. Hayward home prices have gone up 12.5% over the past year. The median sale price exceeded pre-Great Recession highs by 26.8%. This drastic increase over a relatively short period of time impacts not only Hayward residents, but also those who work for the City. Subsequently, in May 2017 City Council expressed a desire to explore options to encourage City of Hayward employees to live within the City limits.

DISCUSSION

Some cities in the Bay Area offer employees assistance to purchase a home within their respective city limits to support and encourage employees to live in the city they serve. These programs range from down payment assistance to home loan programs, among others. Below are four preliminary employee-assistance program options for the Committee’s consideration and feedback, which include:

1. 80-90% purchase price home loans;
2. Down payment assistance;
3. Negotiating with developers preferred access to newly developed housing stock for City staff; and
4. Partnerships with local financial institutions to negotiate for reduced fees associated with purchasing a home.

Option 1: 80-90% Home Loans

This type of loan would provide employees who qualify the opportunity to use funds loaned by the City while employed by the City to fund the purchase of a primary residence home within the City of Hayward. In this scenario, the City would act in the way a traditional lending institution would. The terms of the loan could vary in length of time (20-45 years) and other attributes (interest rate, payment frequency, terms), as well as repayment of the loan when employee separates or retires from the City.

This 80-90% Home Loan Option provides the greatest benefit to employees because they can secure a loan at a rate lower than the consumer market, making purchasing a home more affordable. With this Home Loan Option, the City would have a source of income that would likely be higher than that achieved by the traditional investment tools currently utilized. There are however, some disadvantages with this option.

BENEFITS AND CONSIDERATIONS:

Benefits:

- Provides the greatest benefit to employees because they may secure a loan at a rate lower than the consumer market, making purchasing a home more affordable.
- Could allow for terms unavailable through traditional lenders

Considerations:

- Because the City does not have staff with the necessary expertise to administer an employee home loan program to complete tasks like credit checks, receiving and processing payments, issuing end of year statements, facilitating the loan process, etc, the City would have to partner with a vendor to complete these administrative functions.
- Due to the potential number and amounts of home loans if they were to be made available to all employees, an exposure risk for defaults, fluctuations in the market, as well as criteria for which employees would be eligible for this option should be considered/evaluated.
- Large amounts of capital to fund purchases at or near the median price of a home in Hayward would be necessary.

Option 2: Down payment assistance

This type of loan would provide employees who qualify down payment assistance, in the form of a loan up to an amount and/or percentage of the purchase price to fund a down payment for the purchase of a primary residence home within the City of Hayward. There are many options for this type of loan including the possibility of deferred principal payments, acting as a silent second loan, payment holiday for a term, and more. The

principal amount plus an equitable share of appreciation shall become due and payable at the end of the term, or repaid upon sale, transfer or leaving employment with the City.

BENEFITS AND CONSIDERATIONS:

Benefits:

- Would allow employees with qualifying income but who lack the assets necessary to collateralize a traditional loan access to purchasing a home.

Considerations:

- Similar to the 80-90% loans because the City does not have staff with the necessary expertise to administer an employee home loan program to complete tasks like credit checks, receiving and processing payments, issuing end of year statements, facilitating the loan process, etc., the City would have to partner with a vendor to complete these administrative functions.
- Due to the potential number and amounts of home loans, an exposure risk for defaults, fluctuations in the market and staff turnover, should be considered/evaluated.
- Large amounts of capital to fund purchases at or near the median price of a home in Hayward would be necessary.
- Could create problematic scenario because it could allow the purchase of a home without equity or collateral to secure the loan.

Option 3: Negotiating preferred access to City employees

This program would have relatively little cost and create a large benefit. If utilized, this option would be negotiated with a developer at the time they seek project approval and would require that, in the properties developed, a set number or percentage of units would be set aside for a period of time to allow City employees the opportunity to purchase the unit.

BENEFITS AND CONSIDERATIONS:

Benefits:

- Would offer access to units in the highly competitive market for new units. It would allow employees a chance to purchase without having to “beat” or outbid other potential buyers.

Considerations:

- Although these deals may not necessarily be easy deals to negotiate, they have little negative impact and pose minimal risk because the City would have little to no assets outlaid.

Option 4: Partnerships with Local Financial Institutions

The City would work to leverage banking relationships to offer employees preferred loans and/or other programs. Partnerships with local financial institutions can be explored to provide “preferred” customer status to City employees which potentially includes reduced or no application fees for home loans and other negotiated savings on costs associated with purchasing a home.

BENEFITS AND CONSIDERATIONS:

Benefits:

- Could potentially offer access to preferred rates and/or discounted fees.
- Could potentially offer qualifying terms that traditional lenders may not offer.

Considerations:

- Although these deals may not necessarily be easy to negotiate, they have little negative impact and pose minimal risk.

EMPLOYEE SURVEY:

An employee survey was sent out to better understand the barriers to home purchase and any other considerations that result from the survey. Survey results will help the City understand:

- Whether employees are interested in purchasing a home in the City;
- If not, why not;
- What the biggest barrier(s) are for home purchasing in Hayward;
- The most desired form of assistance the City should consider.

Staff plans to take this information, coupled with the feedback received from the Committee, and explore further feasibility of one or more of the options above and/or any other additional options presented by staff or the Committee through the process. The survey results will be available by January 19th.

STRATEGIC INITIATIVES

The scope of this work may not be directly tied to one of Council’s strategic initiatives at this time. Should a program be pursued it could assist in advancing the Complete Communities initiative should more City employees live in the community they work.

FISCAL IMPACT

The fiscal impact of a program cannot be quantified currently because costs associated will be dependent on the option(s) pursued and level of use.

NEXT STEPS

Following the Committee's feedback and employee survey results, staff will complete additional research, summarize the survey findings, and present a final report and recommendations at a future Committee meeting.

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