



DATE: January 30, 2019

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT: Consideration of a Pilot Employee Home Loan Assistance Program

RECOMMENDATION

That the Council Budget and Finance Committee provides feedback and direction on guidelines for a pilot employee home loan assistance program.

SUMMARY

City Council expressed a desire to explore options to encourage City of Hayward employees to live within the City limits. Staff researched options, surveyed various California jurisdictions, and administered an employee survey to determine employee interests. Existing programs fall into three categories: (1) City-operated financing for all employees meeting established program standards; (2) City-operated financing for department heads and/or city managers only; and (3) Partnership programs with financial services organization for all employees. Of these three program types, the partnership programs are the most preferred by jurisdictions and utilized by employees. This is the type of program recommended for Committee consideration.

BACKGROUND

In May 2017, City Council expressed a desire to explore options to encourage City of Hayward employees to live within the City limits. Since then, staff has researched various options and administered an employee survey to determine employee interests. On May 16, 2018 ¹, an informational report on the employee survey results and program options were provided to the Council Budget and Finance Committee. Staff was directed to research comparable programs, educational programs, and to develop a Down Payment Assistance Program.

Alameda County plans to offer a down payment assistance loan program utilizing Measure A1 funds; this program allows qualifying households who have combined incomes that are

¹ Council and Budget Finance Committee Meeting on May 16, 2018
<https://hayward.legistar.com/LegislationDetail.aspx?ID=3502683&GUID=AE9107D0-B230-42E2-9AFE-2D637217D348&Options=&Search=>

equal to or less than 100% of the County's Area Median Income (AMI) to be eligible for up to a \$150,000 subsidy. Households between 100% and 120% of the [County's AMI](#) will be eligible for up to a \$100,000 subsidy. The first 75 down-payment assistance awards through the program will be made by lottery among qualified, program-approved applicants. Qualifying Hayward residents may apply.

DISCUSSION

Staff surveyed California jurisdictions who had administered or were considering employee home loan assistance program and completed supplemental research. Programs from nine jurisdictions were identified, and ten jurisdictions requested details of the survey results.

As a result of the survey, employee home loan assistance programs can be categorized in three types:

- 1) Employee Home Purchase Programs through partnership with financial services organization for all employees: Two counties coordinated their employee home purchase programs with financial services organizations to provide a home loan mortgage at a discounted rate, and waive closing costs, or offset closing costs by an employer grant.

In these instances, two partnership programs with financial services organizations are heavily used by employees and viewed as successful by employers. Alameda County partners with a financial services organization that waives origination and application costs and offers loans at a discounted rate. Alameda County provides space for onsite consultation and sends out reminders to staff on a quarterly basis. Since the commencement of Alameda County's program in 2015, there have been 123 loans closed. In San Mateo County, the County offers a \$100,000 County financed down payment loan if an employee arranges for a home loan through the partner financial institution. The San Mateo County program is offered through a quarterly lottery.

- 2) City-operated financing for department heads and/or city managers only: These types of programs provide home loans for department heads and/or city manager to move into the employer jurisdiction. The loans are financed through available funds that would normally be a part of a city's investment portfolio and are generally offered at interest rates similar or tied to the local agency investment fund (LAIF) rate.

The housing loan assistance programs available to department heads and/or city managers are used to attract a broader talent pool to leadership roles within a jurisdiction.

Two of the cities that offered programs in this category also offered loans to all other City employees. The City of San Mateo offers all employees a down payment assistance program and offer the department heads, City Manager, and City Attorney loans secured through City funds of up to four times the employee's annual compensation.

- 3) City-operated financing for all employees: Loans for either down payments or home loans are offered at or near the jurisdiction's investment rate. The loans are financed through available funds that would normally be invested. Most loans are only available to employees moving into the employer jurisdiction for the first time.

In the four city-operated and financed programs, there were few loans in place. The City of Union City began their program in 2015 and has administered one loan to date. The City of Mountain View created their housing assistance program in 1995 and has administered six loans to date, with no currently active loans. In the City of Santa Barbara, a home purchase program was created in 2001 funded out of general fund reserves with a total of \$3.8 million in outstanding loans for 36 employees. In 2011, following the recession, the City of Santa Barbara was heavily criticized by the media for participating in the program and consequently, the City of Santa Barbara terminated the housing assistance program.

Table I below summarizes the responses from agencies that offer/offered employee home loan programs.

TABLE I. SUMMARY OF EMPLOYEE HOME LOAN ASSISTANCE PROGRAMS OFFERED BY AGENCIES

JURISDICTION	CITY/COUNTY- OPERATED FINANCING FOR ALL EMPLOYEES	CITY- OPERATED FINANCING FOR DEPARTMENT HEADS AND/OR CITY MANAGERS ONLY	PARTNERSHIP PROGRAM WITH FINANCIAL SERVICES ORGANIZATION FOR ALL EMPLOYEES
City of San Mateo	Down Payment	Home Loan	
City of Union City	Home Loan		
City of San Bruno	Home Loan		
San Mateo County	Down Payment		Home Loan
City of Mountain View	Home Loan	Home Loan ²	
City of Santa Barbara	Home Loan (Ceased in 2011)		
City of Beverly Hills		Home Loan	
City of Cupertino		Home Loan	
Alameda County			Home Loan

² The City of Mountain View offers different home loan terms for their department heads and council appointed positions than the rest of the employees. Their program is currently under review.

Proposed City of Hayward Pilot Employee Home Loan Assistance Program

After reviewing the various employee home loan assistance programs offered in California, staff recommends Council consideration of a pilot Employee Home Loan Assistance Program that includes partnering with a financial services organization. The two key elements of the proposed pilot program are described below.

Employee Home Purchase Programs through Partnership with Financial Services Organization for All Employees:

This pilot employee home purchase program would involve partnering with a local financial institution that offers a first mortgage to employees with favorable terms. Staff is exploring partnership opportunities with a credit union and a local financial institution for preferable terms such as a waiver of closing costs and a discounted mortgage rate. Employees would need to meet creditworthiness standards such as a minimum FICO score, a maximum debt-to-income-ratio, and a demonstration of reserves for two months of principal, interest, taxes, and insurance. The various elements of the program are described below.

City Down Payment Assistance Loan of up to \$150,000

To supplement the first mortgage from the financial services organization, staff proposes to implement a pilot program using \$1.5 Million from City Reserve Funds to fund up to ten (10) \$150,000 down payment loans. The Housing Division would manage this program in conjunction with their existing home loans portfolio. Program guidelines are proposed as follows:

ELIGIBILITY:

- Must be a non-probationary employee
- Must be a full-time employee in good standing, without being subject to discipline above a written reprimand in the 24 months preceding the loan application
- Employee must enroll in financial planning program with the Employee Assistance Program (EAP) or equivalent

LOCATION/TYPE OF UNIT:

- Must be a unit within the City of Hayward
- Can be a single-family home, townhome, or a unit within a multi-family building
- Purchase price capped at \$1,000,000
- Unit purchased must be primary residence

TERMS:

- Down payment loan up to \$150,000
- Applicant must provide a down payment of at least 2.5% of purchase price
- Repayment:
 - Interest rate fixed for five (5) years at 1% above City's portfolio interest rate
 - Interest rate thereafter, for years six (6) through thirty (30) of the loan, will be set annually and shall accrue at a rate equal to the "Yield at Market" achieved by

the City's Managed Portfolio for the quarter ended on June 30 of the previous calendar year, plus 100 basis points or 1%, but shall not exceed 6% and will not increase at a rate of more than 2% in any given calendar year;

- Principal payments deferred during the first 5 years of the loan; interest-only payments in years 1-5
- Outstanding loan balance due at refinance, sale of property, or conversion to rental
- Employment separation within the first five years will result in
 - Principal Payments beginning the month following separation;
 - Hardship provisions would be in place for terminations based on medical or other reasons
- First interest-only payment due 60 days after close of escrow
- No short-term rentals allowed

APPLICATION PROCESS:

- Home purchase workshop required
- Lottery would take place, with a time period allowed for home purchase after being chosen
- Completion of qualification paperwork with partner financial organization required to be entered into the lottery

Table II below provides a sample comparison of a loan to an employee under the pilot program compared to a loan completed through the open market.

TABLE II. SAMPLE COMPARISON OF PILOT PROGRAM TO MARKET RATE LOAN

TERMS	CITY OF HAYWARD PROPOSED PILOT PROGRAM	MARKET RATE LOAN
Home Purchase Price	\$670,000	\$670,000
Individual Contribution to Down Payment (@ 2.5% of Purchase Prize)	\$16,750	\$134,000
City of Hayward Down Payment Loan (Up to \$150k)	\$117,250	\$0
Down Payment Interest Rate	2.38% in Years 1-5, TBD in Years 6-30, up to 6%	0%
Mortgage Loan	\$536,000	\$536,000
Mortgage Loan Interest Rate	4% Fixed Rate	4.125% Fixed Rate
Repayment Term	30 Years	30 Years

RECOMMENDATION

Staff recommends a partnership program with an outside financial services organization for an employee's first mortgage and implementing a complementary City employee down payment assistance loan pilot program using \$1.5 million of City General Fund Reserve Funds. Staff estimates that a total of up to ten employees could participate in the pilot program with a maximum loan from the City of up to \$150,000 each. Once the funds are expended, the program can be reviewed for effectiveness, and reconsidered for future funding.

NEXT STEPS

Staff requests Council Budget and Finance Committee feedback on the pilot employee home loan assistance program guidelines. Staff will incorporate Committee feedback and bring a recommendation to the City Council for discussion and direction.

Prepared by: Monica Davis, Management Analyst II

Recommended by: Dustin Claussen, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is written above a horizontal line.

Kelly McAdoo, City Manager