



DATE: April 9, 2019

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT: Approval of a Pilot Employee Home Loan Assistance Program

RECOMMENDATION

That the Council considers the approval of a pilot employee home loan assistance program.

SUMMARY

City of Hayward employees have expressed interest in an employee home loan assistance program and a survey was sent to California jurisdictions to inquire about details of existing home loan assistance programs. Existing programs fall into three categories: (1) Jurisdiction operated financing for all employees meeting established program standards; (2) Jurisdiction operated financing for department heads and/or city managers only; and (3) Partnership programs with financial services organization for all employees. Of these three types of programs, the partnership programs are the most employed by jurisdictions.

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, 2018¹, an informational report on the employee survey results and program options was provided to the Council Budget and Finance Committee. The Committee requested staff research comparable programs, educational programs, and to develop a Down Payment Assistance Program for Council's consideration. Staff returned to the Committee with options for consideration at the January 30, 2019² regularly scheduled meeting. The discussion below includes feedback from the Committee.

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=>

² Council and Budget Finance Committee Meeting on January 30, 2019:
<https://hayward.legistar.com/LegislationDetail.aspx?ID=3846982&GUID=82850CDD-8EC4-4626-A4B4-7EC3CF32F68E>

Alameda County plans to offer a down payment assistance loan program for all eligible residents of the County utilizing Measure A1 funds; this program allows qualifying households who have combined incomes that are 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.

DISCUSSION

A survey was sent to California jurisdictions to inquire about details of existing home loan assistance program offerings by employers and supplemental research was completed by staff. Programs from nine jurisdictions were identified, and ten jurisdictions requested details of the survey results. There is a growing interest in being able to offer these types of program to employees.

Employee home loan assistance programs can be categorized in three types:

- 1) **Jurisdiction 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 programs of jurisdiction operated financing for all employees that currently exist, there are very few loans in place. For example, in Union City, the program commenced in 2015 and only one loan has been administered. Similarly, the City of Mountain View founded their housing assistance program in 1995, and there have been six loans in the history of the program, with no currently active loans. In the City of Santa Barbara, a home purchase program was created in 2001, and was funded out of general fund reserves. In 2011, as cities struggled with the Great Recession, the City of Santa Barbara was heavily criticized by the media and public for having \$3.8 million in outstanding loans for 36 employees participating in the program, and the housing assistance program was terminated.

- 2) **Jurisdiction operated financing for department heads and/or city managers only:** In these programs, home loans are available for department heads and/or a 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 draw in a broader talent pool to leadership roles within a jurisdiction.³

- 3) **Partnership program with financial services organization for all employees:** The two counties that provided information about their employee home purchase program coordinate 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.

The 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, that county offers a \$100,000 county financed down payment loan only if an employee also arranges for a home loan through the partner financial institution. The San Mateo County program is offered through a quarterly lottery.

Table I provides a summary of the responding agencies and their corresponding programs.

TABLE I. SUMMARY OF EXISTING EMPLOYEE HOME LOAN ASSISTANCE PROGRAMS

JURISDICTION	JURISDICTION OPERATED FINANCING FOR ALL EMPLOYEES	JURISDICTION 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	
City of Santa Barbara	Home Loan (Ceased in 2011)		
City of Beverly Hills		Home Loan	
City of Cupertino		Home Loan	
Alameda County			Home Loan

*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.

³ Two of the cities that offered programs in this category also offered different loans to all employees. For example, the City of San Mateo offers all employees a down payment assistance program and the department heads, City Manager, and City Attorney have access to loans secured through City funds of up to four times the employee's annual compensation.

City of Hayward Pilot Home Loan Assistance Program

Partnership Program with Financial Services Organization

Staff recommends 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.

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 with \$1,500,000 from City Reserve Funds for up to ten (10) \$150,000 down payment loans. Staff will be overseeing the management of the program. 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 and contain a domicile

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

TABLE II. COMPARISON OF PILOT PROGRAM TO MARKET RATE LOAN

	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 Price)	\$16,750	\$134,000
City of Hayward Down Payment Loan	\$117,250	\$0
Down Payment Interest Rate	2.38%* in Years 1-5, TBD in Years 6-30, not to exceed 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

**Interest rate proposed would be tied to the City's managed investment portfolio plus 1%. Allowing the City to ensure it will achieve a rate of return at the same or higher than if it invested the funds in the City's pooled investments but lend to recipients at a below market rate for a comparable loan.*

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 \$1,000,000 of City Reserve Funds. About eight to ten employees could participate in the pilot program with a maximum loan from the City of \$150,000 each. All servicing fees would be paid by loan recipients, as is standard with most residential loan programs. Once the funds are expended, the program can be reviewed for effectiveness, and reconsidered for future funding.

This recommendation includes the feedback received from the members of the Council Budget and Finance Committee at the regularly schedule January 30, 2019 committee meeting.

ECONOMIC IMPACT

There is no direct economic impact associated with this item.

FISCAL IMPACT

While the City would be committing resources to the pilot program, the funds will be returned to the City, with interest, in the form of regularly scheduled loan payments and/or loan repayments in full. The commitment of City resources should not exceed \$1,000,000. Proceeds from the loan will be returned to the General Fund.

STRATEGIC INITIATIVES

There is no direct impact on any of the City's Strategic Initiatives associated with this item.

SUSTAINABILITY FEATURES

There are no direct sustainability features associated with this item.

PUBLIC CONTACT

The Employee Home Loan program has been discussed at regularly scheduled Council Budget and Finance Committee meetings on May 16, 2018 and January 30, 2019.

NEXT STEPS

If the pilot program is approved by Council, staff will engage with an outside banking partner to oversee the program and service the loans. Once the banking partner has been vetted and comprehensive program terms are known, staff will bring the terms and program back to Council for approval of terms and appropriation of funds for the program.

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Recommended by: Dustin Claussen, Director of Finance

Approved by:



Kelly McAadoo, City Manager