



DATE: October 20, 2020

TO: Mayor and City Council

FROM: Deputy City Manager

SUBJECT: Adopt a Resolution Authorizing the City Manager to (1) Submit an Application to the California State Department of Housing and Community Development (HCD) for a Maximum Amount of \$5 Million for Mortgage Assistance Funding under the CalHome Program; (2) Enter into and Execute a Standard Agreement and Any Subsequent Amendments, Modifications, or Documents thereto, if Awarded; and (3) Accept and Appropriate Any Awarded Funds in an Amount Not to Exceed \$5 Million

RECOMMENDATION

That Council adopts a resolution (Attachment II) authorizing the City Manager to:

1. Submit an application to the California State Department of Housing and Community Development (HCD) for a maximum amount of \$5 million for mortgage assistance funding under the CalHome Program;
2. Enter into and execute a Standard Agreement and any subsequent amendments, modifications, or documents necessary to participate in the CalHome Program with the California State Department of Housing and Community Development if the grant funds are awarded, and
3. Accept and appropriate any awarded funds in an amount not to exceed \$5 million.

SUMMARY

Housing affordability is an issue for many people in the Bay Area and homeownership provides long-term housing stability. On August 31, 2020, HCD released the CalHome Program Notice of Funding Availability (NOFA), which made available approximately \$57 million in funding to local public agencies and non-profits for qualifying CalHome activities that support homeownership. While there are multiple eligible uses for the CalHome funds, staff determined that first-time homebuyer mortgage assistance will address the affordability gap for low-income purchasers, can be implemented by integrating it into existing homeownership services, and fulfills the request of the Homelessness-Housing Task Force (HHTF) to provide greater affordable homeownership opportunities for Hayward residents.

Staff has determined that the City would be eligible for grant funds under the CalHome NOFA, if it partners with a more experienced program administrator. Staff has issued a Request For Proposal (RFP) to identify a qualified program administrator and will enter into a contract with the consultant administratively for a first phase of work to develop the framework of a mortgage assistance program and return to Council for approval of a contract amendment for any subsequent work, if required.

A successful application would provide mortgage assistance in the form of a deferred loan to low-income, first-time homebuyers in an amount not to exceed \$100,000. Staff estimates that a four-person household earning near the income limit with modest consumer debt could afford a \$570,000 purchase price with a \$100,000 CalHome mortgage assistance loan, which is sufficient to enter the Hayward housing market.

Staff is requesting Council authority to apply for the maximum grant amount of \$5 million, although anticipates that the application may be submitted for a lower amount to increase feasibility competitiveness.

BACKGROUND

Housing affordability is an issue for many people in the Bay Area. Homeownership provides long-term housing stability as long as the cost is affordable, and maintenance and repairs are manageable. Homeownership programs can stabilize housing costs for those that are eligible and have the capacity to purchase. Homeownership programs like mortgage assistance programs can help bridge the gap between what a household can afford and the purchase price, provide a down payment, and incentivize homeownership. The City of Hayward administered a first-time homebuyer (FTHB) mortgage assistance program (“FTHB Program”) targeting moderate income households from 1995 through 2012. While active, the FTHB Program provided loan assistance to 257 moderate-income households. Of those 257 loans, 42 loans remain outstanding and continue to be serviced by the City. Currently, the City does not have funding for originating new loans through the FTHB Program. On August 31, 2020, State HCD released the CalHome Program Notice of Funding Availability (NOFA) which, if awarded, would provide funding for mortgage assistance to low-income Hayward residents and reinstitute the City’s First-Time Homebuyer Program.

CalHome NOFA

On August 31, 2020, HCD released the CalHome NOFA and made available approximately \$57 million in state CalHome Program funds from the Affordable Housing Bond Act Trust Fund of 2018 to fund local public agencies and nonprofit corporations for eligible activities under the CalHome Program. Eligible activities under the CalHome Program include:

1. First-time Homebuyer Mortgage Assistance
2. Owner-Occupied Rehabilitation Assistance
3. Technical Assistance for Self-Help Housing Projects
4. Technical Assistance for Shared Housing Programs

5. ADU/JADU Programs
6. Homeownership Development Project Loans

The purpose of CalHome is to support existing homeownership programs aimed at low and very low-income households, and moderate-income households that have been impacted by disasters. The goal is to increase homeownership, encourage neighborhood revitalization and sustainable development, and maximize the use of existing housing stock. The 2020 NOFA includes geographic targets of up to 45% of available funds for Southern California, up to 30% for Northern California, and up to 15% for rural areas. Mortgage assistance is an eligible activity under the CalHome Program with a minimum allowable application amount of \$500,000 and a maximum allowable amount of \$5 million. CalHome funding is awarded on a competitive basis to the highest scoring applicants. Applicants must meet eligibility and threshold requirements and receive a minimum score of 55 points to be considered for funding. Applications are due on October 29, 2020 and funding awards are anticipated to be announced in February 2021. If awarded, 100% of any CalHome funds received must be expended within 36 months of the date of the award of funds by HCD.

On June 4, 2020, the Homelessness and Housing Taskforce (HHTF) reviewed and discussed a report on programs and policies that create homeownership opportunities in the City of Hayward. The report reviewed the following programs and policies:

1. Homebuyer assistance programs
2. Affordable Housing Ordinance (AHO) ownership units
3. Tenant right of first refusal policies (TROFR)
4. Community land trusts (CLT)
5. Subsidizing affordable ownership development

The report concluded that while the above listed programs and policies are viable mechanisms to create more affordable homeownership opportunities, the costs associated with homebuyer assistance, tenant right of first refusal policies, community land trusts, and subsidizing affordable ownership development is prohibitive without additional funding. However, the HHTF was strongly supportive of policies and programs to create homeownership opportunities as a mechanism to stabilize housing costs. A successful application under the CalHome NOFA for Mortgage Assistance will provide the City with resources to reinstitute the City's First-Time Homebuyer Program and provide homebuyer assistance.

DISCUSSION

Staff recommends applying to the 2020 CalHome Program NOFA for mortgage assistance funds to reinstitute the City's First Time Homebuyer Program to provide homeownership opportunities and housing stability to low-income Hayward residents. While there are multiple eligible uses for the CalHome funds, staff determined that mortgage assistance will address the affordability gap for low-income purchasers, can be implemented by integrating it into existing homeownership services, and will fulfill requests of the HHTF to provide homeownership opportunities. Additionally, the City currently funds an owner-occupied

rehabilitation loan program and ADU development has the potential of being funded by existing homeowners without additional public subsidy.

Staff has determined that the City can meet the eligibility criteria to apply for CalHome Mortgage Assistance funding and that the program would be feasible under current market conditions which are discussed in detail below.

CalHome Program Mortgage Assistance Eligibility Criteria

CalHome funding is available to local public agency applicants. To be eligible to apply for mortgage assistance funding, applicants must have a minimum of two years of housing program administration experience within the four years immediately preceding the application. While the City has been servicing loans since 1995, the City has not originated new loans since 2012. Even though the Housing Manager has 13 years of experience administering a first-time homebuyer program in another jurisdiction, to ensure that the City meets the eligibility requirements, staff recommends contracting with an experienced program administrator to meet the eligibility requirements.

Staff issued a Request for Proposals (RFP) on September 25, 2020, to identify a qualified consultant to partner with the City to administer the CalHome program should the City be awarded funds. Final proposals from bidders were due on October 16, 2020. At the time this report was published, staff was reviewing qualifications of consultants to identify a qualified partner. In order to meet the application deadline of October 29, staff will enter into a contract with the chosen consultant for the application phase of the project not to exceed the City Manager's contracting authority. If the City is awarded CalHome funds and the implementation of the program requires additional consulting services that exceeds the City Manager's contracting authority, staff will return to Council to request approval of a contract amendment.

Mortgage Assistance Activity Requirements

The CalHome guidelines establish the requirements for a mortgage assistance program. If the City is awarded funds, the program administered by the City must meet specific borrower eligibility requirements, property eligibility requirements, and loan terms. These requirements are summarized below.

Eligible Borrowers. Eligible borrowers must meet the following criteria:

- Have a household income at or below 80% of the area median income. See ***Table 1***.
- Be first-time homebuyers
- Intend to owner occupy the property
- Meet prudent underwriting standards
- Complete homebuyer education requirements

Table 1: 2020 California Department of Housing and Community Development Income Limits

Household Size	1	2	3	4	5
Low Income 80% AMI	73,100	83,550	94,000	104,400	112,800

Eligible Property. Eligible properties must meet the following criteria:

- Maximum purchase price: Alameda County median sales price (\$1,028,220) subject to applicant's purchase capacity.
- A dwelling unit which may include an accessory dwelling unit
- Meet habitability requirements consistent with State Housing Law
- Meets loan to value limits (100% plus up to 5% for closing costs)

Loan Terms. CalHome guidelines require the following loan terms:

- Maximum loan amount: \$100,000
- Deferred payment loan (No monthly payments)
- Payable upon sale, transfer, when the home ceases to be owner occupied or the end of the term (30 years)
- Secured by the property

Program Feasibility

Staff has determined that with the additional assistance provided by the CalHome Mortgage Assistance program, low-income Hayward residents will be able to enter the housing market at a price point below the median sales price. Inventory may be limited but utilization of personal assets and additional down payment assistance programs such as the California Housing Finance Agency (CalHFA) MyHome Assistance Program can increase purchase capacity. Staff has estimated that a four-person household earning near the income limit with modest consumer debt could afford, with \$100,000 in CalHome mortgage assistance, a \$570,000 purchase price. Per the Bay East Association of Realtor's August 2020 report, approximately 96 attached properties priced below \$500,000 and 20 detached homes priced below \$500,000 were sold in calendar year 2019. Per Zillow, there are 62 homes listed for less than \$570,000. While inventory is low, there are still opportunities. Additionally, the CalHome loans can make affordable ownership units, created under the Affordable Housing Ordinance (AHO) and targeting moderate income households, accessible to low-income households. While there are some potential challenges, staff recommends applying for CalHome funds to create homeownership opportunities for low income households by providing needed gap funding through mortgage assistance.

Due to minimal inventory and to ensure competitiveness for grant funds, staff may apply for less than the maximum grant amount of \$5 million. However, staff is requesting authority to apply for the maximum grant amount to ensure that the City qualifies for the maximum amount of grant funds available.

Housing Element and Regional Housing Needs Allocation Compliance

Since 1969, the State of California has required that all local jurisdictions adequately plan to meet the housing needs of everyone in their communities. The Regional Housing Need Allocation (RHNA) is the part of Housing Element Law used to determine how many new homes, and the affordability of those homes, each local government must plan for in its Housing Element. A mortgage assistance program does not create any new units and therefore, will not provide units toward the City's RHNA goals.

Grant Management Policy

Staff has submitted a Grant Review Application to the City's Grant Administrative Committee for approval as per Section 3.6, "Grant Management Policy of the City Administrative Rules." Departments seeking grant funding opportunities are required to submit a grant application for review and recommendation.

ECONOMIC IMPACT

The proposed program would support housing stability and will reduce the cost burden for low-income Hayward residents who qualify for a loan under the CalHome Program. Loan repayments revolve into a CalHome reuse account and the funds will be used to fund future CalHome eligible activities.

FISCAL IMPACT

The \$5,000,000 grant from HCD CalHome program does not require a matching contribution. Acceptance and appropriation of the CalHome grant could fund up to 50 mortgage assistance loans to low-income first-time homebuyers. There is no fiscal impact to the General Fund. If awarded, the City will have to create a special revenue fund for the purpose of receiving, appropriating, and reuse of any CalHome award. The program includes a grant to cover Activity Delivery Fees (ADF) of up to ten (10) percent of the total awarded amount, which will offset City and consultant staffing costs incurred in administering the CalHome Program loans

STRATEGIC ROADMAP

This agenda item supports the Strategic Priority of Preserve, Protect & Produce Housing. Specifically, this item relates to the implementation of the following project(s):

Project 8, Part 8b: Apply for state housing funding to support strategic partnerships and Council priorities.

PUBLIC CONTACT

On June 4, 2020, the HHTF reviewed and discussed a report on programs and policies that could create homeownership opportunities in the City of Hayward, which included a discussion on homebuyer assistance programs such as the CalHome program. Public comment was made in support of providing homeownership opportunities for Hayward residents.

NEXT STEPS

If authorized, staff will enter into a contract with a qualified program administrative partner not to exceed the City Manager's contracting authority for the application and initiation phase of the project before the October 29, 2020 application deadline. Awards will be announced in February 2021. If grant funds are awarded, the City will enter into a Standard Agreement and other necessary documents with HCD and work with the program administrator to implement the program.

Prepared by: Doris Tang, Management Analyst

Recommended by: Christina Morales, Housing Manager
Jennifer Ott, Deputy City Manager

Approved by:

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

Kelly McAdoo, City Manager