

**SANTA BARBARA COUNTY
BOARD AGENDA LETTER**



Clerk of the Board of Supervisors
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Agenda Number:

Prepared on: 3/13/02
Department: Housing and Comm.
Development
Budget Unit: 990
Agenda Date: 3/25/03
Placement: Administrative
Estimate Time: None
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors
FROM: Ed Moses, Director
Housing and Community Development
STAFF CONTACT: Tim Wong
Housing Specialist Ext. 3523
SUBJECT: Homebuyer Assistance Program Guideline Revisions

Recommendation(s):

That the Board of Supervisors:

- A. Approve the revised *Homebuyer Assistance Program Guidelines* (Exhibit A).

Alignment with Board Strategic Plan:

The recommendations are primarily aligned with Goals No. 5 and No. 7. Maintain and Enhance the Quality of Life for all Residents and Strengthen the Safety and Well-Being of Children and Their Families to Ensure a Strong Future for our Community.

Executive Summary and Discussion:

The Homebuyer Assistance Program is a County – administered loan program to assist low income, first – time homebuyers purchase their first home by filling the financial gap between what a borrower can afford in a first mortgage and downpayment, and the price of the home. The Homebuyer Assistance Program Guidelines were originally approved by the Board of Supervisors on April 25, 1995 to cover Homebuyer Assistance Programs in all County HMAs. By July 1997, however, the program targeted only the Santa Maria Housing Market Area. The financial gap between what a low income family could afford (first mortgage and downpayment) and the cost of housing on the South Coast had escalated to well over \$250,000, no longer making the program cost effective in those areas.

The Housing Finance Division of the Department of Housing and Community Development, in conjunction with the City of Santa Maria has maintained an extremely successful, on-going Homebuyer Assistance Program in the Santa Maria Housing Market Area. All available loan funds have been utilized since July 1997 so that 53 families could purchase their first home. (66 families have purchased homes countywide.) The City of Santa Maria and the County are currently going through their Notice of Funds Available (NOFA) cycles. Additional funds may be available for the Homebuyer Assistance Program but that will be determined as part of the NOFA process.

Board approval of the revised *Homebuyer Assistance Program Guidelines* (Exhibit A) will increase the Santa Maria Housing Market Area's (HMA) Homebuyer Assistance Program (HAP) loan limit from \$40,000 to \$60,000 since market conditions that were the basis for holding the loan limits to \$40,000 no longer exist. In the past, the County money had been provided in the form of a silent second mortgage with no interest and no monthly payments. Recapture of the loan is based on the shared equity principle in which the loan recipient receives a portion of the home's appreciation based on their percentage of equity in the house. The longer the owner resides in the unit, the greater the equity they accrue through their monthly mortgage payments, the greater the percentage of equity they build in their house. The revisions will continue with the shared equity principle with the additional provision that \$20,000 of the loan will be forgiven at a rate of \$2,000 per year for the first ten years of the loan. If the homeowner moves or if the property changes title during those first ten years, they would be responsible for the repayment of the remaining balance of the entire loan. The \$2,000 would be applied towards the loan recipient's equity in the house and therefore increase the owner's percentage of equity. The basis for this revision is that the county's \$60,000 contribution to the equity of the residence constitutes such a large percentage of the total equity in the unit that it generally takes a homeowner approximately 18 years for that homeowner to achieve 50% of the total equity in the home, thus 50% of the home appreciation. In order to shorten the time span, Housing Finance is proposing the \$20,000 forgivable loan.

Another revision to the Guidelines is the County funds may be used to pay down the mortgage interest rate by up to two points. Determination of the number of points to be paid will be the discretion of the Los Padres Bank loan officer, our partner in this program. In the past, the HAP funds were strictly applied to the down payment. However, by allowing the HAP monies to be used to pay for points in order to reduce the interest rate, it lowers the family's monthly payments.

The Santa Maria HMA housing market has changed dramatically since the program's inception. *Median selling prices for homes in the North County (including Santa Maria and Orcutt) rose 27% from August 2001 to August, 2002 from \$212,500 per home to \$278,050.* Because of the local housing price increases, twelve families already approved for a Los Padres Bank's first mortgage and a HAP second mortgage cannot find a home they can afford with the current \$40,000 loan limit. However, a significant number of these families would be able to purchase condominiums with the additional \$20,000 increase.

Mandates and Service Levels:

The Housing Finance Program is not mandated; however, acceptance of funds to carry out affordable housing activities requires the County to comply with the conditions attached to those funds.

Through a request for proposal process, the Housing Finance Division selected Los Padres Savings Bank and First American Title Company to assist with the administration of the HAP. Housing Finance oversees the

overall administration of the Homebuyer Assistance Program. The on-going program, as proposed, has been designed to ease the County's administrative burden.

Fiscal and Facilities Impacts:

This proposed action allocates for specific use, funding already contained in the adjusted budget. There is no fiscal impact on this budget unit from this allocation.

Concurrences:

None