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# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Leslye Krutko

**SUBJECT:** SEE BELOW

**DATE:** January 14, 2009

Approved

Date

1-15-09

**COUNCIL DISTRICTS:** 1,3,5,6 & 7  
**SNI AREAS:** Burbank/Del Monte,  
Washington, Winchester, & 13<sup>th</sup> Street

## INFORMATION

**SUBJECT**    **COMMITMENT OF SECOND MORTGAGES TO HOMEBUYERS IN  
FOR-SALE DEVELOPMENTS – SECOND QUARTERLY STATUS  
REPORT**

## BACKGROUND

On March 4, 2008, the City Council authorized the Department of Housing to publish a Notice of Funding Availability (NOFA) for second mortgage assistance loans to be used to assist low- and moderate-income homebuyers purchase homes in new housing communities throughout the City.

In April 2008, the Department of Housing received eleven applications in response to the NOFA, with requests totaling more than \$14,690,000. Each application was ranked and scored in conformance with the general parameters and goals approved by the City Council. A total of \$10,000,000 was reserved for homebuyers in eleven new construction housing developments in San José. This report is the second of three quarterly reports that are to be submitted to the City Council regarding the usage of the second mortgage commitments. The City's commitment of downpayment assistance funds for homebuyers is set to expire one year from the award date, and any remaining unused funds may be renegotiated with each developer, at the option of the City.

## ANALYSIS

Since the eleven projects were notified of their forward commitment awards totaling \$10 million, over \$4 million has been committed to homebuyers in ten new developments in San José. Forty-one loans have closed and another thirty-one are scheduled to close escrow within the next several months. The table below provides a detailed summary of the status of each commitment.

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Project	CC District	Original Award	Revised Award (11/2008)	# of Potential Homebuyers	Loans Closed	Total Funds Committed	Loans Under Review
Monte Vista	6	\$2,000,000	\$3,000,000	50	24	\$2,250,000	16
Jackson Park	5	\$1,330,000	\$1,330,000	24	5	\$490,000	4
The Works	3	\$1,100,000	\$500,000	20	1	\$60,000	1
City Heights	3	\$1,000,000	\$700,000	18	0	\$110,000	2
*Skyline at Tamien	3	\$1,000,000	\$0	18	0	\$0	0
Crimson Place	7	\$850,000	\$1,450,000	14	6	\$540,000	3
Villa Fontana	6	\$800,000	\$800,000	15	0	\$60,000	1
Village Square	6	\$760,000	\$760,000	19	2	\$120,000	0
Villa Valencia	1	\$400,000	\$400,000	7	1	\$60,000	0
Almaden Walk	6	\$400,000	\$700,000	7	2	\$300,000	3
One East Julian	3	\$360,000	\$360,000	7	0	\$45,000	1
<b>TOTALS</b>		<b>\$10,000,000</b>	<b>\$10,000,000</b>	<b>199</b>	<b>41</b>	<b>\$4,035,000</b>	<b>31</b>

\*Skyline at Tamien: The City Council approved the temporary conversion to rental units on September 30, 2008.

Initial utilization of the second mortgage program in most developments was slow primarily due to the builder's project pre-sale requirements from individual mortgage lenders and various construction phasing schedules. During the last half of 2008, demand for the funds rose sharply as developers lowered prices to reflect market conditions.

By the end of 2008, several new challenges began facing prospective City-assisted homebuyers. First, the California Housing Finance Agency froze funding on all bond-funded programs including their first mortgage and downpayment assistance programs such as California Homebuyer's Down Payment Assistance Program (CHDAP), the Extra Credit Teacher Program (ECTP), and the School Facility Fee Down Payment Assistance Program (SFF). These programs are used often by City of San José homebuyers who need additional funds to help them qualify for a mortgage and purchase a home. Second, increased downpayment requirements and expensive mortgage insurance premiums are impacting prospective buyers' ability to qualify for mortgage financing. Third, the continued decline of home values in San José poses ongoing challenges for developers and builders who face competition for a limited number of qualified buyers from private owners and banks selling single-family detached homes for similar prices.

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In addition to the challenges described above, the State Department of Housing and Community Development (HCD) recently informed local jurisdictions that it is unable to reimburse local grantees for any past loans made by cities through the CalHOME and Building Equity and Growth in Neighborhoods (BEGIN) Programs. In 2007, the City secured BEGIN funds for homebuyers in several of the developments listed above. The funds were to be used to deepen affordability by providing additional downpayment assistance funds to buyers, and indirectly helping owners by creating a wider pool of potential new homebuyers. The City may not be able to offer BEGIN funds to future homebuyers, due to the upfront carrying costs associated with making State funded loans combined with the uncertainty of the timing of future reimbursements from the State.

#### Project Reallocations

In November, Housing Department staff received several requests for additional funding commitments from the owners of Monte Vista, Almaden Walk, and Crimson Place. The City evaluated the requests and discussed the specific needs of each project owner. As a result, staff reallocated funds from developments experiencing less demand at The Works, Skyline @ Tamien, and City Heights. In December, Housing Department staff increased funding commitments at Monte Vista, Almaden Walk, and Crimson Place. Additional reallocations from projects with less demand to projects with increased demand may be processed by Housing staff in the future to help meet the needs of low- and moderate-income homebuyers in each community.

#### Non-NOFA Second Mortgage Commitments

Prior to the second mortgage commitments made under the NOFA, the City Council approved forward commitments of second mortgage assistance to income-eligible homebuyers at Villa Almendra and San Antonio Place. Four loans have been committed to households purchasing at Villa Almendra and two households have purchased a home at San Antonio Place using City funds. There are twelve remaining homes for sale at Villa Almendra and no remaining for-sale units at San Antonio Place.

#### EVALUATION AND FOLLOW-UP

The forward commitment amounts to homebuyers at each community will expire in April 2009. Housing Department staff is currently evaluating the status of each commitment and the developers' usage of the funds with each project owner. If housing staff determines that the developer has not made sufficient and measurable progress in attracting qualified homebuyers, existing funding commitments will be reduced, terminated, or re-allocated to homebuyers in other projects. Housing Department staff will submit a final status report in April 2009.

  
LESLYE KRUTKO  
Director of Housing

For Questions, contact Leslye Krutko, Director of Housing at (408) 535-3851.

