COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Department of Housing

Date: August 16, 2012
Board Meeting Date: August 28, 2012
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Duane Bay, Director, Department of Housing

Subject: Home Acquisition/Rehabilitation/Resale Loan Pilot Program

RECOMMENDATION:
Adopt a Resolution authorizing the Department of Housing to adjust particular program guidelines of the existing pilot program to loan funds to qualified non-profit organizations to acquire distressed single-family homes to resell to qualified low-income buyers or non-profits providing supportive housing to special needs residents.

BACKGROUND:
For more than twenty years the County has operated a suite of programs that provide low-interest loans to low-income households to buy or rehabilitate homes, and loans to non-profits to rehabilitate apartments affordable to very-low income households. The loan programs are now funded primarily from two revolving trust funds that recapture loan repayments, federal and non-federal, respectively. All loans are secured by deeds of trust on the subject property. Loans conforming to program parameters are approved at the Department of Housing ("Department") level under delegated authority.

Over time the Department has adapted the programs to respond to changing market conditions, funding conditions and community needs. Programs, including program adaptations as they evolve, are described in the Annual Action Plan the Department brings to the Board during May each year for review and approval before submittal to the U.S. Department of Housing and Urban Development (HUD). Consistent with this long-standing practice of program adaptation, in 2011 the Department sought and received approval of the Board to conduct a limited pilot program to provide nonprofit partners a viable approach to rehabilitating vacant foreclosed properties.

Under the pilot program, the County makes a bridge loan to an eligible and qualified nonprofit partner to acquire a vacant, foreclosed, bank-owned property through the National Community Stabilization Trust (NCST) clearinghouse. Under the program, the nonprofit rehabilitates the property, transfers the land to a housing land trust to assure secure long term affordability, and sells the home to a qualified low-income family, who would also hold a long-term, low-cost groundlease containing appropriate use and resale restrictions.

DISCUSSION:

Based on experiences with the program during its first year, the Department of Housing requests Board approval of certain modifications to the original program guidelines.

To date, AbleWorks, a local nonprofit specializing in foreclosure counseling, financial literacy and community lending, has purchased two homes in East Palo Alto. One has been renovated and is being rented out to a Section 8 voucher holder pending selection of a qualified homebuyer. The other was acquired only recently and rehabilitation is underway. The Department incorporated the housing land trust instrumentality that will hold title to the land. A grant from the Wells Fargo Foundation to the Department covered start-up costs for the pilot project and partially subsidized the two acquisitions.

One purpose of the pilot is to identify opportunities to improve the program design. During the first year the following substantial problems emerged: (1) acquisition through NCST was too difficult and time-consuming; (2) it was more difficult than anticipated to synchronize the renovation and disposition (sale to qualified homebuyer), indicating the need for a mechanism allowing interim holding until suitable disposition; (3) good opportunities to acquire shared housing for special needs populations have arisen that didn't fit program parameters; and (4) home prices are rising, even in distressed neighborhoods. To address these issues, the Department proposes to modify the pilot program guidelines as follows: 1) expand the range of eligible types of properties for acquisition to include any distressed property, for example those in pre-foreclosure that are not yet bank-owned; 2) allow the nonprofit partner to hold the home for up to two years to identify the best disposition scenario and select buyers or program operators; 3) allow multiple disposition scenarios, including scenarios that facilitate create of shared supportive housing, such as for veterans; and 4) increase the maximum allowable purchase price.

In particular, the Department of Housing now requests Board approval of the following modified program guidelines.

- The Acquisition/Rehabilitation/Resale ("A/R/R") loan would go to a qualified non-profit organization to acquire, rehabilitation and resell or hold a qualified property. This guideline is modified to allow the non-profit to retain the property in certain scenarios outlined in guidelines "B" and "D" below.
- A/R/R loans would be used to acquire distressed properties. This definition is more flexible than the current pilot guideline, which was limited to vacant, bank-owned single-family properties.
- The maximum loan amount of the acquisition bridge loan portion of the loan would be raised from $225,000 to $325,000. The maximum amount for the home rehabilitation portion of the loan would remain at $75,000.

- The maximum loan-to-value ratio would be increased to 100% of the estimated post-rehabilitation value. This conforms to the standard home rehabilitation loan program.
- The disposition of the home after rehabilitation must conform to one of the following scenarios. Scenario A, below, was the original scenario. Scenarios B, C and D are proposed modifications to the original guidelines. In all scenarios, the original program feature is retained that requires that the underlying land is conveyed to a housing land trust for secure long-term stewardship and groundleased at a nominal cost to the owner of the home.

  A. The home may be sold to a household that meets the standard income and credit requirements of the County's START program, and is enrolled or has completed a homebuyer preparation and/or self-sufficiency program operated by Department of Housing or its non-profit grantees (e.g., Housing Authority's Family Self-Sufficiency Program, Housing Authority's Homeownership Program, HIP Housing's Self-Sufficiency Program).
  B. Prior to executing Scenario A above, the home may be held by the non-profit for an interim period of up to two years pending selection of a qualified buyer, provided that during the interim period the home is rented to a household that meets the criteria for Scenario A.
  C. The home may be sold to a qualified non-profit organization to provide shared housing with on-site supportive services to resident with special housing needs who could obtain or retain suitable housing without the related case-management services.
  D. If the non-profit partner that is performing the acquisition and rehabilitation of the home is also a program provider, as described in Scenario C above (e.g., Shelter Network, Mental Health Associates, CORA), the non-profit may retain ownership of the home. This is conceptually equivalent to Scenario C, but with a single non-profit in dual roles as developer and program operator.

The Department requests Board approval for the program modifications outlined above and in the Executive Summary submitted herewith, and also requests that the Department Director or the Director's designee be authorized to execute loan agreements up to a maximum of $400,000 and related security instruments, for transactions conforming to program guidelines as set forth in the attached resolution.

Approval of this Resolution contributes to the Shared Vision 2025 outcome of a Livable Community by promoting affordable, livable and connected community.

The Resolution has been reviewed and approved by County Counsel as to form.

PERFORMANCE MEASURE(S):

Measure	FY 2011-12 Actual	FY 2012-13 Projected
Number of County-funded housing units developed and occupied	15	200

FISCAL IMPACT:

There is no Net County Cost. The source of funds for the bridge loan portion of the pilot program will be non-federal departmental reserves for community projects (Trust Fund 04531). The source of funds for the rehabilitation loan portion of the pilot program will be CDGB Rehab Revolving Loan Fund.