



*City of Arts & Innovation*

# Development Committee

**TO: DEVELOPMENT COMMITTEE MEMBERS** **DATE: AUGUST 18, 2016**

**FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT** **WARDS: ALL**

**SUBJECT: AMENDMENTS TO THE RIVERSIDE DOWN PAYMENT ASSISTANCE PROGRAM AND HOUSING REHABILITATION LOAN PROGRAM GUIDELINES**

## **ISSUE:**

Recommend the City Council approve amendments to the Riverside Down Payment Assistance Program and the Housing Rehabilitation Loan Program Guidelines.

## **RECOMMENDATIONS:**

That the Development Committee recommend the City Council approve amending the Riverside Down Payment Assistance Program and Housing Rehabilitation Program guidelines to reduce the interest on CalHome deferred loans and on HOME regular and deferred loans from 3% to 0%.

## **BACKGROUND:**

The State of California Housing and Community Development (HCD) provided funding under Proposition 1C for the CalHome Program, which the City of Riverside received a \$1 million grant allocation in 2012 and 2014 to operate the Down Payment Assistance and Housing Rehabilitation Programs. Through these programs the City offers the following loan options:

1. Down Payment Assistance Program: Low-interest, 30-year deferred loans to income-eligible, first-time homebuyers to assist with down payment, closing costs and gap financing. The program provides a maximum of \$50,000 or 25% of the purchase price, whichever is less, at a 3% simple interest; and
2. Housing Rehabilitation Program: Low-interest, 30-year deferred loans up to \$50,000 to income-eligible homeowners in order to eliminate health and safety hazards and code violations in the City of Riverside. These loans are currently offered at a 3% simple interest rate and are only offered to individuals or families whose total household income is less than 80% of area median income.

The City of Riverside also receives an annual allocation of Federal HOME Investment Partnerships (HOME) Program funds from the United States Department of Housing and Urban Development (HUD) to provide regular loans up to \$50,000 to address health and safety issues for income-eligible individuals or families as part of the Housing Rehabilitation Program. Regular loans bear a 3% simple interest rate with fully amortized payments over a 30 year term. The loans are deferred for households with monthly housing expenses that exceed 40% of their monthly income.

In March 2016, City Council approved amending the Down Payment Assistance program guidelines by decreasing the required buyer down-payment contribution from 3% to 1% in an effort to promote additional program demand. Additional modifications were made to the Housing Rehabilitation Program that broadened the HOME grants.

## **DISCUSSION:**

These previously-approved changes to the Down Payment Assistance and Housing Rehabilitation Program guidelines have proven successful in attracting more interest to the programs. However, based on customer feedback and input from Riverside Housing Development Corporation, the City's Housing Rehabilitation Program administrator, applicants can already obtain a comparable loan and interest rate from banks today without having to address all the health and safety issues and code violations on the property that include, but are not limited to, lead based paint, demolition or permit unpermitted construction, and garage conversions.

At the time the Down Payment Assistance and Housing Rehabilitation Program guidelines were enacted, the housing market was less inflated for low-income households and there was sufficient housing stock for low income first-time homebuyers in the City of Riverside. However, with today's average median sales price of a home in the City of Riverside increasing to \$350,000, lower income individuals and families are finding it a challenge to afford a home in the City. Furthermore, the 3% simple interest rate loans is a deterrent for low-income first-time homebuyers and homeowners who need to make home modifications.

If a Down Payment Assistance and rehabilitation loan recipient obtains a \$50,000 loan with a 3% simple interest rate, they will have to repay \$45,000 in interest at either the maturity of their deferred loan or over a thirty year period.

### **Example:**

Loan Balance with and without interest.

	Balance at 30-Year Deferred Term or In total with 3% Interest	Balance at 30-Year Deferred Term or In total with 0% Interest
Buyer Pays with a \$50,000 30-Year Loan	\$95,000	\$50,000

CalHome and HOME Program regulations allow the City to set the interest rate between 0% and 3%.

Staff is requesting the Development Committee to recommend City Council approve amending the Riverside Down Payment Assistance Program and Housing Rehabilitation Program guidelines to reduce the interest on CalHome deferred loans and on HOME regular and deferred loans from 3% to 0% to further attract interest in the City's Down Payment Assistance and Housing Rehabilitation programs, create homeownership opportunities and preserve the City's housing existing stock for low income families.

## **FISCAL IMPACT**

The Riverside Down Payment Assistance Program is funded by HCD and the Housing Rehabilitation Program is funded by HCD and HUD. There is no impact to the General Fund.

Reducing the Riverside Down Payment Assistance Program and Housing Rehabilitation Program interest rate from 3% to 0%, will better facilitate income-eligible, first-time homebuyers to purchase their homes.

Submitted by:	Rafael Guzman, Community & Economic Development Director
Certified as to availability of funds:	Scott G. Miller, Interim Finance Director/Treasurer
Approved by:	Al Zelinka, FAICP, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Attachments:	Presentation
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