City of Long Beach
Working Together to Serve

Memorandum

Date: August 23, 2019

To: Patrick H. West, City Manager

From: Linda F. Tatum, Director of Development Services

For: Mayor and Members of the City Council

Subject: **Results of Homeownership Program Research**

At its February 6, 2018 meeting, the City Council requested the City Manager to evaluate the feasibility of providing increased pathways to homeownership for low- and moderate-income individuals by implementing the following:

- Work with partners such as the Neighborhood Housing Services of Los Angeles County and the Affordable Housing Clearinghouse to establish a HUD Certified Homebuyer Counseling Center in Long Beach;
- Explore the rise of non-bank lenders by establishing a dialogue with the top seven non-bank lenders in Long Beach to develop a path to a community benefits participation plan;
- Retool the City's soft second mortgage programs by leveraging and partnering with private sector institutions; and,
- Evaluate the feasibility of alternative forms of homeownership supply such as community land trusts, and other cooperative homeownership models.

In response to the City Council's request, staff took the following steps:

- Compiled information on the City's history of providing homebuyer assistance programs, including partnerships with related agencies;
- Met with several homebuyer counseling and service providers;
- Collaborated with Economic Development Department staff and realtors to explore homebuyer lending practices;
- Assembled data on the cost to assist homebuyers in the current market; and,
- Evaluated alternative homeownership models.

History and Summary of Long Beach Homebuyer Assistance Programs

Over the past several decades, the City and the Long Beach Community Investment Company (LBCIC) offered a variety of first-time homebuyer programs that provided direct financial assistance to low- and moderate-income households to help purchase their first home. These programs were funded by various sources, including Redevelopment Housing Set-Aside funds

(Set-Aside), Federal Home Investment Partnerships Program funds (HOME) and Neighborhood Stabilization Program funds (NSP), and State CalHome and Building Equity and Growth in Neighborhoods (BEGIN) funds. Funding for these programs is no longer available, and the City does not currently offer homebuyer assistance programs. The following is a historical summary of City/LBCIC First-Time Homebuyer Programs:

Down Payment Assistance Program (DAP). Provided purchase assistance in the form of a $10,000 forgivable loan.

Police and Fire Down Payment Assistance Program. Provided purchase assistance in the form of a $10,000 forgivable loan to qualified Long Beach Police and Fire personnel.

Interest Rate Reduction Program (IRRP). Provided a $3,500 conditional grant to permanently buy down the interest rate on an approved real estate loan.

Second Mortgage Assistance Program (SMAP-Version 1). Provided purchase assistance in the form of a silent second mortgage of up to $25,000.

CalHome Second Mortgage Assistance Program. Provided purchase assistance in the form of a silent second mortgage of up to $60,000.

BEGIN Mortgage Assistance Program. Assisted first-time buyers in purchasing a home at the Olive Court Condominiums by offering silent second mortgage loans of up to $30,000.

Project Specific Mortgage Assistance. Provided purchase assistance in the form of silent second and/or third mortgage loans to buyers at City/LBCIC-assisted affordable housing developments, including: Olive Court, Neo Zoe, and Coronado condominium communities.

Second Mortgage Assistance Program (SMAP-Version 2). Provided purchase assistance in the form of a silent second mortgage. Loan amounts were determined by the borrower's household income and home purchase price and could exceed $200,000 per borrower.

The City also received and administered three NSP grants in the wake of the 2008 housing foreclosure crisis and recession. These programs promoted neighborhood stabilization through the acquisition of foreclosed properties, and provided homeownership opportunities to qualified lower-income first-time homebuyers. The following is a summary of the programs:

NSP 1 and NSP 3. The City acquired and rehabilitated blighted foreclosed single-family homes in designated NSP areas, which were then resold to income qualified buyers who were provided with second mortgage assistance.

NSP2. Provided purchase assistance in the form of a silent second mortgage of up to $200,000 along with a rehabilitation grant of up to $30,000 to qualified buyers purchasing a vacant, foreclosed single-family residence located in a designated NSP area.

The table below shows the total number of loans and amount of overall assistance provided through the programs described above.

HOMEBUYER ASSISTANCE PROGRAMS, 1993-2017		
Program Type	**Number of Loans**	**Funding Amount**
Down Payment Assistance Program	798	$2,100,000
Police & Fire Down Payment Assistance Program	6	$58,135
Second Mortgage Assistance Program (SMAP) 2002	185	$2,000,000
Olive Court BEGIN/SMAP	38	$5,826,704
Neo Zoe SMAP	18	$5,360,850
Coronado SMAP	48	$7,800,000
SMAP 2009	58	$10,000,000
Neighborhood Stabilization Program One (NSP1)	18	$6,818,130
Neighborhood Stabilization Program Two (NSP2)	117	$23,875,830
Neighborhood Stabilization Program Three (NSP3)	4	$1,556,586
CalHome Down Payment Assistance	102	$5,835,000
TOTAL	**1,392**	**$71,231,235**

Due to the dissolution of redevelopment agencies and the subsequent loss of local Set-Aside funds, combined with a substantial decrease in federal HOME funds, there is no longer funding available for homebuyer assistance programs. However, staff continues to promote all currently available County and State homebuyer assistance programs to residents by providing information on the Development Services website. Current State and County programs are listed below.

Los Angeles County Development Authority (LACDA)

LACDA offers the following programs:

Mortgage Credit Certificate Program (MCC). The MCC Program offers qualified first-time homebuyers a federal income tax credit. The federal credit can reduce potential federal income tax liability, creating additional net spendable income for qualified first-time homebuyers to possibly use toward their monthly mortgage payment. This MCC Program enables qualified first-time homebuyers to convert a portion of their annual mortgage interest into a direct dollar for dollar tax credit on their U.S. individual income tax returns. The qualified homebuyer is awarded a tax credit of up to 20 percent of the annual interest paid on the mortgage loan. The remaining 80 percent of the mortgage interest will continue to qualify as an itemized tax deduction.

Southern California Home Financing Authority (SCHFA). SCHFA offers a mortgage revenue bond program that issues 30-year mortgage revenue funds at competitive interest rates. To be eligible for the program, the buyer must be a first-time homebuyer whose income may not exceed 120 percent of the Los Angeles County median income. The program also provides downpayment and closing cost assistance in the form of a gift equivalent to 4 percent of the first loan amount.

California Housing Finance Agency (CalHFA)

CalHFA offers the following programs:

Conventional First Mortgage Loans

CalHFA Conventional Loan Program. The CalHFA Conventional program is a first mortgage loan insured through private mortgage insurance on the conventional market. The interest rate on the CalHFA Conventional is fixed throughout the 30-year term.

CalPLUS Conventional Loan Program. The CalPLUS Conventional program is a conventional first mortgage with a slightly higher 30-year fixed interest rate than the standard CalHFA conventional loan program and is combined with the CalHFA Zero Interest Program (ZIP) for closing costs.

Government Insured First Mortgage Loans

CalHFA FHA Loan Program. The CalHFA FHA Program is an FHA-insured loan featuring a CalHFA 30-year fixed interest rate first mortgage.

CalPLUS FHA Loan Program. The CalPLUS FHA program is an FHA-insured first mortgage with a slightly higher 30-year fixed interest rate than the standard FHA Loan program and is combined with the CalHFA Zero Interest Program (ZIP) for closing costs.

Cal-EEM + Grant Program. The Cal-EEM + Grant program combines an FHA-insured Energy Efficient Mortgage first mortgage loan with an additional Cal-EEM Grant. The interest rate on the Cal-EEM is fixed throughout the 30-year term.

CalHFA VA Loan Program. The CalHFA VA program is a VA-insured loan featuring a CalHFA fixed interest rate first mortgage. This loan is a 30-year fixed interest rate first mortgage.

Down Payment Assistance Programs

MyHome Assistance Program. Offers a deferred-payment junior loan of an amount up to the lesser of 3.5 percent of the purchase price or appraised value to assist with down payment and/or closing costs.

School Teacher and Employee Assistance Program (School Program). This program is for teachers, administrators, school district employees and staff members working for any California K-12 public school, which includes Charter schools and county/ continuation schools. Applicants must also be first-time homebuyers. School Program junior loans are up to 4 percent of the purchase price and can only be combined with an eligible CalHFA first mortgage loan. School Program subordinate loans can only be used for down payment assistance and/or closing costs.

Homeownership Education Service Providers

The City/LBCIC programs discussed above included a requirement that loan recipients complete a homebuyer education course through a HUD-certified homebuyer training agency. To facilitate that training, the City/LBCIC partnered with or referred homebuyers to a variety of services providers, including Neighborhood Housing Services of Los Angeles County, who was a key service provider for City/LBCIC programs. The City/LBCIC also partnered with a multitude of lenders and realtors during the implementation of these programs.

Since February 2018, staff has conducted a series of meetings with lenders and homeownership education service providers to learn about new programs and current housing market conditions, and to discuss potential new partnerships with these organizations. Staff has met with the following organizations:

Home Preservation & Prevention, Inc. (HPP Cares). HPP Cares is a Long Beach-based HUD approved housing counseling agency which provides NeighborWorks Financial Literacy, Homeownership Education, Foreclosure Prevention, and Post-homeownership classes. HPP Cares met with staff to explore partnerships and the expansion of homebuyer classes throughout the City.

Hong Kong and Shanghai Banking Corporation (HSBC). Staff met with representatives from HSBC to discuss the LACDC County HOP program, which assists LA County residents with up to $60,000 in second mortgage loans; the LACDC Mortgage Credit Certificate Program (MCC), WISH, and HSBC Community Works Program. These programs offer financial assistance to first-time homebuyers, though the HOP program is not available in Long Beach (HOP is only available in certain LA County cities that do not receive a direct allocation of HOME funds).

Home Point Financial Corporation. Home Point representatives met with staff to provide the City with information on current affordable housing programs and expressed interest in partnering with the City to provide loans to participants in any City-operated homebuyer assistance program.

Affordable Housing Clearinghouse (AHC). AHC employs HUD Certified Housing Counselors and offers a Homebuyer Orientation, Credit & Budgeting class, and Homebuyer Education Certification workshops. AHC is funded by several lending institutions.

Neighborhood Housing Services of Los Angeles County (NHS). NHS offers homeownership programs and seminars in LA County through their community centers in Los Angeles and Compton, and offer pathways to homeownership through financial literacy classes, homeownership education, and homeownership programs. NHS offers limited financial assistance and noted that they would need the City to offer a substantial silent second mortgage to make a program useful for Long Beach homebuyers.

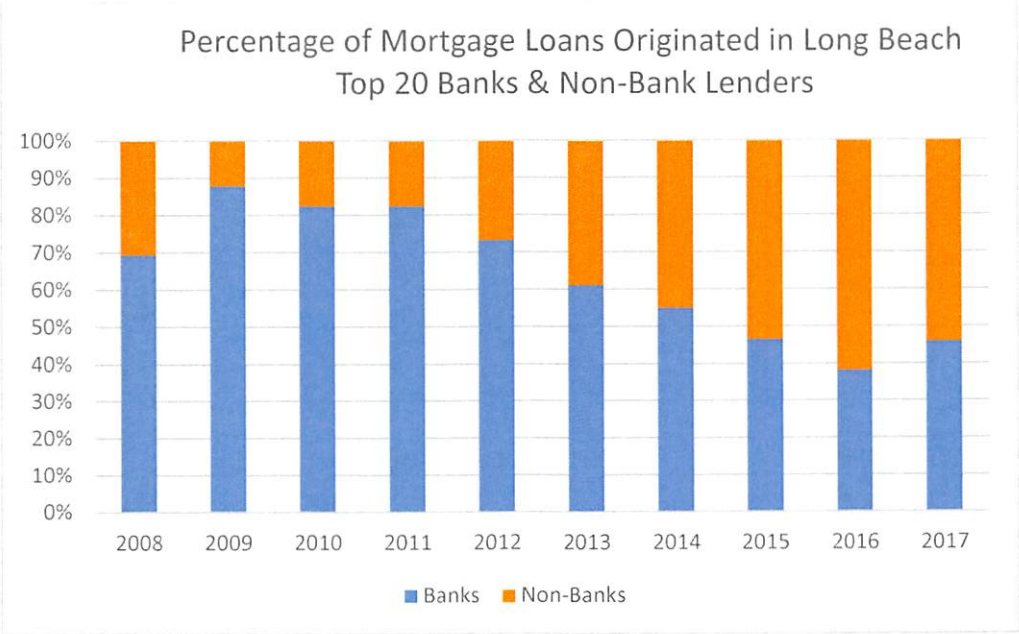
The above agencies expressed interest in partnering with Long Beach, but City/LBCIC staff will need to identify new funding for City/LBCIC homebuyer programs to establish robust partnerships. Meanwhile, it is important to work together to prepare future homebuyers for homeownership.

Rise of Non-Bank Mortgage Lenders

Nationally, non-bank mortgage lenders proliferated in the years leading up to the 2008 financial crisis, and these lenders contributed to the housing bubble by issuing mortgages to high-risk borrowers. These mortgages were often funded by lines of credit, and many of these lenders collapsed during the crisis. As the housing market has strengthened in recent years, non-bank lenders have again become a large source of mortgage lending throughout the country as traditional banks have scaled back their mortgage lending activities. Non-bank lenders are often more willing than traditional banks to lend to borrowers with less-than-perfect credit, or those who are interested in buying a home that needs significant repairs.

There remain concerns regarding the structure of most non-bank lenders, as they are typically subject to much less oversight than traditional banks, have fewer capital reserves, and rely on short-term loans from traditional banks to fund their mortgage lending lines of business.

Staff researched the rise of non-bank lenders in the City of Long Beach. Data obtained from the LendingPatterns mortgage lending market database show a greater market share being captured by non-bank lenders over the last decade. Staff obtained the number of loans originated by the top 20 lenders in Long Beach and found that the percentage of mortgage loans originated by non-bank lenders grew from below 20 percent of the mortgage originated by the top 20 lenders to over 50 percent from 2015-2017. This trend is not a local phenomenon, but reflects the growth of non-bank lenders in the residential lending market from 2008 to 2017.



In 2017, the top seven non-bank lenders in the Long Beach, provided the number of loans noted below:

1. Broker Solutions, Inc. (613)

2. Finance of America Mortgage (590)
3. Quicken Loans (588)
4. NationStar Mortgage (588)
5. Shore Mortgage (513)
6. LoanDepot.com (429)
7. Excel Mortgage Servicing, Inc. (399)

Current Market Conditions and the Cost to Provide Homeownership Programs

In 2018, staff requested Keyser Marston Associates (KMA) to prepare a report estimating the amount of financial assistance required to make homes in Long Beach affordable to moderate, low-, and very-low income households. To estimate these amounts, the analysis quantified the differences between the current market prices for homes in Long Beach and the prices that are affordable to households at these income levels, thereby establishing an "affordability gap" that would need to be closed with funding assistance. The affordability gap equates to the amount of silent second mortgage assistance that would need to be provided to lower-income homebuyers.

Citywide, KMA's analysis found the median market rate sales prices and the associated affordability gap per home for moderate, low, and very-low income households as defined by HUD guidelines. These affordability gaps, as shown below, are derived from citywide median home values. Actual home values vary by ZIP Code.

Affordability Gap Summary	Studio	1-BR	2-BR	3-BR	4-BR
Citywide Median Market Rate Sales Price	$223,000	$275,000	$425,000	$652,500	$689,500
Affordability Gap Per Unit					
Moderate Income	None	($12,800)	($146,500)	($369,400)	($386,000)
Low Income	($134,000)	($176,900)	($330,800)	($574,500)	($607,400)
Very-Low Income	($182,200)	($233,000)	($394,100)	($644,500)	($683,200)

The affordability gap calculation accounts for median sales prices as well as the ongoing expenses that must be borne by a homeowner overtime, such as utilities, maintenance, insurance, HOA fees, and property taxes. These ongoing expenses take up a large portion of a household's annual income allotted to housing, reducing the income available for a household to spend toward a mortgage. For very-low income households, the ongoing expenses for larger homes may equal or exceed the income available for housing, leaving the household with no income available to pay a mortgage. In these cases, the resulting affordability gap may be equal to, or larger, than the sales price.

During the time since the City last offered homebuyer assistance programs, the median price of a home in Long Beach has risen substantially, especially when compared to the median income. This means that the affordability gap for a lower-income homebuyer is larger than before. Any new program offering mortgage assistance for lower-income households will assist fewer households on a dollar-for-dollar basis.

If the City were to create a new homebuyer assistance program, policy considerations could include identifying the income levels to be targeted for assistance, as well as placing an upper limit on the price of a unit that can be assisted. For example, the City could create a program targeted to low-income households, with a maximum purchase price set to match the citywide median 2-bedroom sales price of $425,000. For this program to assist 100 low-income households, the City would need to provide funding equal to the total affordability gap of $330,800 per buyer, or $33,080,000.

Alternative Homeownership Models

Alternative forms of homeownership include community land trusts and other cooperative homeownership models intended to provide pathways to stabilizing housing costs for low- and moderate-income households. This section briefly explores these homeownership models, provides a brief survey of existing community land trusts and cooperatives in other municipalities, and outlines considerations for agencies interested in these alternative forms of homeownership.

Community Land Trusts (CLTs)

CLTs are typically operated by non-profit, community-based organizations intended and designed to ensure community stewardship of land. These organizations hold title to land with the mission of preserving its long-term availability for affordable housing and other community uses. Land trusts typically receive public or private donations of land or use government subsidies to purchase the land on which housing can be built[1]. Key features of a land trust include:

- Status as a non-profit, tax-exempt corporation
- Dual ownership by the CLT and the residents
- Long-term leased land
- Affordability preserved in perpetuity
- Perpetual responsibility to preserve community stewardship
- Open, place-based membership
- Community control
- Joint governance by lessees, community members, and officials
- Expansionist program (active acquisition and development intended to expand the CLT's landholdings)
- Flexible development (variability in the types of projects CLTs pursue and the roles they play in developing them)

More than 225 CLTs exist in 41 states and the District of Columbia, providing approximately 12,000 homes in the United States. Some local governments have supported the creation and operation of CLTs through public-private partnerships intended to expand the stock of

[1] Lincoln Institute, 2008

permanently affordable homeownership housing. Municipal support can take various forms, including:

- Providing administrative support during planning and start-up
- Providing financial support through land donation, grants, or low-interest loans
- Assisting in acquisition of housing provided by private developers to comply with affordability requirements

Cooperative Homeownership Models (Cooperatives)

Cooperatives generally take two forms: market rate, in which share prices of the cooperative can rise on the open market, and limited-equity cooperatives, which place restrictions on the pricing of shares when sold. In a market-rate cooperative, shareholders in the cooperative may sell at whatever price the market will bear when they want to move out. This structure is like that of owning a condominium, but the co-op carries the mortgage. Typically, this means that the fee paid to the co-op is higher than a comparable homeowners' association (HOA) fee in a condominium project, while the purchase price of a stock cooperative unit is lower than a comparable condominium. In limited-equity cooperatives, the co-op has rules regarding the pricing of shares when they are sold. The intent of such a structure is to maintain a supply of affordable housing, while offering residents the ability to build a limited amount of equity in their home.

The body of research around CLTs has established the potential of CLTs and other cooperative models to create affordable home ownership opportunities for lower-income residents. However, obstacles remain for establishing a successful CLT in Long Beach, including a limited supply of available land for use as a CLT, and the absence of an existing non-profit entity in the City seeking to purchase land, incorporate, and operate as a CLT. Non-profits seeking to establish a CLT typically search for available government-owned land or government subsidies, neither of which are currently available. Furthermore, CLTs nationwide have more frequently found success in depressed markets, where they can cheaply acquire and rehabilitate properties and sell them affordably. This model may not be able to quickly expand in high-cost markets such as Long Beach.

Conclusion

Homeownership is a key tool for promoting neighborhood and family stability for Long Beach residents, and programs to assist in homeownership may help Long Beach achieve greater economic inclusion. Staff has experience and interest in offering first-time homebuyer programs, but doing so will require new funding resources. Staff will continue to work with service providers to identify programs that help residents achieve homeownership with a focus on helping families prepare for homeownership. Once a new funding source is identified and secured, the Departments of Development Services and Economic Development will collaborate on strategies for incorporating economic inclusion into any new homebuyer program(s).

If you have questions regarding this matter, please contact Patrick Ure, Housing and Neighborhood Services Bureau Manager, at Patrick.Ure@longbeach.gov or at (562) 570-6026.

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