



## **STAFF REPORT**

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### **Resolution to amend the Homebuyers Assistance Program**

#### **Honorable Chair and Directors:**

At the September 14<sup>th</sup> meeting, Directors requested information regarding the Agency's ability to refocus the Homebuyer Assistance Program to be available only to properties within the Redevelopment Area Plan Boundary, plus R-3 and R-4 zones elsewhere in the City. This report provides General Plan conformance information and offers a recommendation to adopt a Resolution to amend the Homebuyer Assistance Program.

Staff reviewed the General Plan Housing Element's policies regarding the Homebuyer Assistance Program. On page 5-13, the program is described, as follows:

*"The Home Buyer Assistance Program provides down payment assistance in the form of long-term, low-interest loans to low-and moderate-income first-time home buyers in Belmont. Funds are available to assist with the purchase of a single-family home, townhome, or condominium. The maximum loan amount is 15% of the purchase price. The term of the loan is 30 years and the loan may be paid-off any time prior to the #0-year term without penalty. In exchange for the loan, a resale restriction agreement is recorded on the property to ensure the continued availability of the home to a subsequent low or moderate-income buyer."*

Further, the Element sets a goal of five loans during the term of the Housing Element (2001 through 2006).

Staff does not believe that the changes proposed by the RDA Board conflict with this description, including limiting the assistance program to the RDA plan area, plus R-3 and R-4 zones elsewhere in the City. While the program is targeted at "first-time home buyers in Belmont" it does not preclude limiting the loans to an area within the City. (The program also limits the loans based on other factors not stated in the Housing Element, such as maximum loan amount and credit worthiness).

It is understood by staff that the purpose of the proposed geographical limitation is to prevent large loans on a few expensive properties from depleting the program (last year, a loan of \$160,000 was granted to purchase an \$800,000 home). By this limit, less expensive properties in

the RDA area and multi-family zones would be targeted. The Board may wish to consider whether or not limiting the maximum loan amount to \$75,000 sufficiently addresses the desire to fund more, smaller purchases. There might be situations where unanticipated properties, outside of the project area and not within the R-3 and R-4 Districts, would be affordable to a moderate-income household but excluded from program participation.

We believe the current programmatic requirements, including 1) minimum 5% down payment and closing costs to be contributed by the borrower, 2) household income limit, 3) maximum loan amount, etc. will be successful in accomplishing the aims of the Agency's Homebuyer Assistance Program. Staff will bring the Homebuyer Assistance Program back to Agency Directors at the end of FY 2004/2005 for program review; incorporation of further program changes and geographic limits could be instituted as needed.

Attached is the revised resolution and procedure for the Homebuyer Assistance Program, based on the Agency's direction of August 10, 2004. The following changes were made to the resolution and program rules:

- 1) Require the borrower pay a minimum 5% down payment, plus payment of closing costs.
- 2) Establish a maximum loan amount to be 15% of the sales price or \$75,000 whichever is less.

**Recommendation:**

Adopt the attached Resolution approving the Homebuyer Assistance Program description of Exhibit A.

**Attachment:**

1. Resolution of approval for Homebuyer Assistance Program Modification
2. Exhibit A – Program Pamphlet 10/2004
3. August 10, 2004 staff report to the Agency

Respectfully submitted,

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Dia Swan  
Associate Planner

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Craig A. Ewing, AICP  
Administrative Officer

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Daniel Rich  
Interim Executive Director

RESOLUTION NO. R.A. \_\_\_\_

RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF BELMONT  
APPROVING A MODIFICATION TO THE HOMEBUYER ASSISTANCE PROGRAM

WHEREAS, the Redevelopment Agency of the City of Belmont has adopted and amended, from time to time, the Los Costanos Redevelopment Plan for the Los Costanos Redevelopment Project Area; and,

WHEREAS, among the central objectives of the Plan, the City's General Plan, and the California Community Redevelopment Law, Health and Safety Code sections 33000 *et seq.* are the creation of housing and rehabilitation of existing housing opportunities for low and moderate income households; and,

WHEREAS, in order to serve these objectives, the Redevelopment Agency of the City of Belmont developed a program to create homeownership opportunities for low and moderate income households; and,

WHEREAS, the Agency has established a Housing Fund pursuant to Health and Safety Code Section 33334.2 and funded the Home Buyer Assistance Program; and,

WHEREAS, the Program provides assistance to low and moderate income households with home ownership opportunities by providing down payment assistance; and,

WHEREAS, the Agency adopted on March 14, 1995, by Resolution No. R.A. 217, the Eligibility Criteria for Participation in the Homebuyers Assistance Program; and,

WHEREAS, the Agency adopted on November 12, 1997, by Resolution No. R.A. 287, the expansion of the Homebuyer Assistance Program to include the entire City of Belmont; and,

WHEREAS, the Agency adopted on September 8, 1998, by Resolution No. R.A. 308, the expansion of the Homebuyers Assistance Program to eliminate the home purchase price limit; and,

WHEREAS, the Agency adopted on March 14, 2000, by Resolution No. R.A. 350, the expansion of the Homebuyers Assistance Program to eliminate the home purchase price limit outside the Redevelopment Agency's Project Area and change the maximum loan amount from \$400,000 to 15% of the purchase price; and,

WHEREAS, the Agency adopted on April 8, 2003, by Resolution No. R.A. 406 the expansion of the Homebuyer Assistance Program (a) to increase the maximum loan amount to 20% of the purchase price, (b) to create an administrative loan review committee in order to reduce loan processing time, and (c) to modify the Resale Restriction Agreement to include an equity sharing option, and how such programmatic modifications will benefit the success of the program; and,

WHEREAS, the staff report accompanying this Resolution provides information and analysis about the need for amending the Homebuyer Assistance Program to improve its usefulness in implementing the Agency's goals for home ownership; and,

NOW, THEREFORE, BE IT RESOLVED that the Agency finds and determines that the above recitals are true and correct and have served as a basis in part, for the following amendments to the Homebuyer Assistance Program:

1. Require the borrower pay a minimum 5% down payment, plus payment of closing costs.
2. Establish a maximum loan amount to be the lesser of 15% of the sales price or \$75,000.

BE IT FURTHER RESOLVED THAT, based on information and analysis set forth in the above recitals and contained in this staff report accompanying this Resolution, the Agency hereby finds and determines, pursuant to Health and Safety Code Section 33334.2(e)(8), to provide subsidies to low and moderate income households to the extent those households cannot obtain housing at affordable costs on the open market; and,

\* \* \* \* \*

I hereby certify that the foregoing resolution was passed and adopted at a regular meeting of the Redevelopment Agency of the City of Belmont held on October 12, 2004 by the following vote:

AYES,  
DIRECTORS: \_\_\_\_\_

NOES,  
DIRECTORS: \_\_\_\_\_

ABSENT,  
DIRECTORS: \_\_\_\_\_

ABSTAIN,  
DIRECTORS: \_\_\_\_\_

\_\_\_\_\_  
SECRETARY, Redevelopment Agency

APPROVED:

\_\_\_\_\_  
CHAIR of the Board of Directors, Redevelopment Agency

## The Homebuyer Assistance Program Information

The Belmont City Council through its Redevelopment Agency is sponsoring a “Home Buyer Assistance Program”, wherein the Agency provides down payment assistance in the form of long term, low interest loans to qualified home buyers in Belmont. Funds are available to assist with the purchase of a single-family residence, townhome or condominium. The program is administered by the Belmont Community Development Department.

Should you have any questions after reading this brochure, please call the Housing Specialist in the City’s Community Development Department (650) 595-7417. This brochure may also be found on the City of Belmont’s Web site:

[www.belmont.gov/localgov/comdev/hbap.html](http://www.belmont.gov/localgov/comdev/hbap.html)

## Eligibility Requirements

*Applicants Must Meet the Following Criteria:*

- You must be a first-time homebuyer in Belmont, which means, that you have not owned a home in Belmont as a primary residence for the three consecutive years prior to applying for the program.

- OR -

- You currently work in Belmont and have done so for the past two consecutive years and currently do not own a home in Belmont.

- AND -

- You must have sufficient assets to pay a minimum 5% down payment and closing costs.
- You must remain the owner/occupant throughout the term of the down payment assistance loan.
- Your total securities, cash equivalents, and real estate equity assets may not exceed \$125,000.
- You must be able to qualify for a primary mortgage loan from a private lender (bank, savings & loan, credit union, etc.)
- Your maximum annual gross household income may not exceed the limits established by HUD shown in the following table.

2004 Maximum Income Limits \*  
(Gross Annual Household Income)

Persons/ Household	Annual Income Limit	Gross Monthly Income
1	\$79,800	\$6,560

2	\$91,200	\$7,600
3	\$102,600	\$8,550
4	\$114,000	\$9,500
5	\$123,100	\$10,258

\* Income limits from HUD and shall be adjusted annually

### **Program Description**

#### *Loan Terms:*

- Maximum loan amount is the 15% of the purchase price or \$75,000 whichever is less.
- The term of the loan is 30 years
- The Interest Rate is 3% (*compounded annually*)
- There is no maximum purchase price
- Payments are deferred for the life of the loan.
- The loan may be paid-off any time prior to its 30-year term without penalty.
- There is a non-refundable application and processing fee of \$300 due when the loan application package is submitted. The check is payable to San Mateo County, at that time.
- The city will subordinate to a new first mortgage if the existing balance of the first mortgage is being refinanced for the purpose of obtaining a more favorable interest rate. A “cash-out” refinance is not allowed.
- The City’s loan will be secured by a promissory note and deed of trust and there are resale restrictions on the property while the Agency loan is in effect.

### **Resale Restriction**

A Resale Restriction Agreement will be recorded on your property in order to protect the City’s financial interest and to

ensure the continued availability of this program to subsequent moderate-income homebuyers.

There are also provisions in the agreement, which address owner occupancy requirements, assumption of the loan, purchaser eligibility and maintenance of the residence. A copy of the Resale Restriction Agreement is available for your review at the Belmont Permit Center, 1070 Sixth Ave., Suite 200, Belmont. Interested parties may purchase a copy of the Agreement for a nominal fee.

Please make sure you read and understand all of the conditions of this Agreement before signing

a property purchase contract.

### **How to Apply**

If an Eligibility Application is not included with this brochure call the Belmont Community Development Department at 595-7417 and request one.

Complete and submit the Application, along with all documentation requested, to the Community Development Department. Required information to submit with your application will include tax returns and W-2 forms for the past three years, current bank statements and two most recent pay stubs. City staff will review your application and notify you of the results. When your eligibility is confirmed, you may begin searching for a property and arranging for your primary mortgage loan.

Notify the City as soon as you have identified a property and a mortgage lender. The City will then reconfirm your eligibility, send you a letter authorizing your participation in the program and provide you with a loan application and instructions on how to proceed.

The San Mateo County Office of Housing will manage all loan-processing operations for the City and will be the primary contact for both you and your lender after the initial eligibility phase is completed by the City.

You may contact County staff at (650) 802-5035 for any assistance you may need during the loan processing and closing process.

REDEVELOPMENT AGENCY AGENDA #\_\_\_\_\_  
MEETING OF AUGUST 10, 2004



## **STAFF REPORT**

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### **Resolution of the Belmont Redevelopment Agency approving a modification to the Existing Homebuyers Assistance Program**

#### **Honorable Chair and Directors:**

#### **Summary**

Staff is recommending that the current "Homebuyer Assistance Program" be modified to improve program utilization and take action to adopt a policy change to the program, as follows:

1. Require the borrower pay a minimum 3% down payment, plus payment of closing costs.
2. Establish a maximum loan amount to be the lesser of 20% of the sales price or \$150,000.

#### **Background**

Under the State of California Redevelopment Agency Housing Laws, twenty percent (20%) of the tax revenue generated within a project area is set aside for the establishment of low and moderate-income housing assistance. One of the programs funded by the Agency is Belmont's Home Buyer Assistance Program, started in 1996. At that time, the program provided long-term, low interest loans for down payment towards the purchase of a single-family residence, town home or condominium in the Redevelopment Area. Payment of the loan was deferred for 30 years or until the home was sold. The maximum home price in 1996 was set at \$300,000. The maximum loan amount was 10% of the home purchase price or \$30,000.

- In 1997 the program was updated, expanding the program to the entire City and raising the maximum loan to \$40,000 but the maximum purchase price was still limited to \$300,000.
- In 1998 the Agency eliminated the \$300,000 purchase price limit, but the maximum loan was still \$40,000.
- In 2000, the Agency changed the maximum loan amount from \$40,000 to 15% of the purchase price.
- In 2003, the Agency changed the maximum loan amount to 20% of the purchase price and created the administrative loan review committee to increase loan efficiency.

These program changes, combined with a favorable lending environment, a tight housing market and improved marketing led to significant interest in the Belmont Homebuyer Assistance Program; staff has been fielding an average of seven program questions a month and accepting approximately one application a month for the last year. In fact, the program's popularity led to an over-subscription of the available loan funds. In response, the Agency suspended the program in order to reconcile certain provisions, which are presented below.

### **Analysis**

The quantity and nature of recent loan requests have given rise to a need for additional policy direction from the Redevelopment Agency Board. Staff would have the Board consider the following:

1. Requiring a minimum down payment from the applicant
2. Re-instating a maximum loan amount

### **Minimum Down Payment**

Staff has found that lenders are now financing loan packages with an effective down payment of zero where the bank would loan 80%, the Belmont RDA would loan 20% and the applicant would put in nothing, except closing costs. Staff is concerned that this does not meet the intent of the program; however, Belmont's rules are vague. The eligibility requirements state in part that, "You must have sufficient assets to pay down payment and closing costs required by the primary lender." (emphasis added) What we have learned is that primary lenders are willing to accept ZERO down payments, when the City is putting up twenty percent.

The Agency may consider requiring a certain down payment from the borrower to receive an Agency loan. An associated question is whether or not to include closing costs as part of – or in addition to – the required down payment. Staff's research indicates the following:

- Under normal circumstances mortgage lender require a 20% down payment, plus closing costs at approximately 2% of the purchase price.
- A Federal Housing Administration (FHA) Loan could require as low as a 3% down payment, but there are many limitations on program qualification.

If our Homebuyer Assistance Program Loan were to require a minimum down payment of 3%, and included the closing costs, the purchaser would simply cover the closing costs and have little equity in the loan (see chart below). A required 10% down payment would create more buyer involvement but may significantly reduce the pool of qualifying participants. Ten percent is a relatively large cash requirement and would be difficult for low and moderate-income households to provide. Further, many of the homes at the entry level have significant improvement needs like a new roof and foundation work. If the goal of this program is to make home ownership affordable to low and moderate income households, they may need to preserve their cash to bring the house into a more improved condition.

Down Payment Comparison	3% down	3% plus closing costs (~5%)	10% down
Borrowers contribution towards purchase of a \$800,000 home	\$24,000	~\$40,000	\$80,000

Staff recommends that the minimum down payment provided by the borrower be 3% plus the closing costs.

### Maximum Loan Amount

The current budget (FY 2004/2005) includes \$295,000 for the Homebuyer Assistance Program and the current regional average sales price for a single-family home is \$847,820 (median sales price is \$665,000). With a 20% Homebuyer Assistance Loan for purchase of an \$800,000 home (\$160,000) there would be funds for less than two loans.

The three most recent Homebuyer Assistance Loans have been for \$105,800, \$159,800, and \$91,080. From the year 2000, the highest Homebuyer Assistance Loan granted was \$159,800, the lowest loan granted was \$48,000, and the average of the nine loans granted was \$98,659 (See Attachment c).

Staff recommends that the program rules be changed to state, that the maximum loan amount shall be the lesser of 20% of the sales price or \$150,000, in order to allow for at least two home loans each year.

### **Conclusion**

Staff believes there are benefits to this program to justify its continued use and improvement:

- LMI funds are being spent on loans, which are eventually returned to the Agency.
- The program promotes homeownership, as well as improvements to the City's housing stock.
- The State requires that the Agency put them to use, and we will be able to report this loan activity as a positive aspect of our annual RDA reports.

Previous changes to the Homebuyer Assistance Loan combined with a favorable lending environment, tight housing market and improved program marketing have led to significant program interest and over-subscription in FY 2003/2004. In order to resolve Homebuyer Assistance Loan program concerns, staff recommends requiring a minimum 3% down payment plus closing costs be paid by the borrower, and that the maximum loan amount of \$150,000 but not more than 20% of the purchase price

### **Fiscal Impact**

The Belmont Redevelopment Agency has unencumbered funds for the Homebuyer Assistance Program Loans appropriated in 822-4633-9506-9020. These costs are continued from previous

program operations. Expenditure of budgeted Redevelopment funds will be in the form of a 30-year loan secured by a second deed of trust and Resale Restriction Documents will structure loan repayment.

### **Recommendation**

Adopt the attached Resolution approving the Homebuyer Assistance Program description of Exhibit A.

### **Alternative**

1. Deny proposal and leave the existing Homebuyer Assistance Program in place.
2. Provide staff with other direction on program design.

### **Attachments**

- a) Resolution of approval for Program Modification
- b) San Mateo County Housing Indicators (12/31/03)
- c) RDA Unit Listing
- d) Proposed Project Pamphlet

Respectfully submitted,

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Dia Swan  
Associate Planner

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Craig A. Ewing, AICP  
Administrative Officer

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Jere A. Kersnar  
Executive Director