

STAFF REPORT

City of Lancaster

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12/13/2022
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Date: December 13, 2022

To: Mayor Parris and City Council Members

From: Jeff Hogan, Senior Director - Development Services
Chenin Dow, Senior Manager - Real Estate & Economic Development
Christopher Aune, Housing Manager - Real Estate and Economic Development

Subject: First Time Homebuyer Program

Recommendations:

1. Adopt **Resolution No. 22-61**, implementing the First Time Homebuyer Program.
2. Authorize the City Manager or his designee to execute all related documents.
3. Authorize the City Manager or his designee to negotiate and execute individual loan agreements of up to \$150,000.00 each with qualified homebuyers under the parameters of the First Time Homebuyer Program, up to a maximum cumulative amount of \$1,657,393.00, with the concurrence of the City Attorney.
4. Appropriate \$981,261.00 from fund balance 391-2900-000 to expenditure account number 391-4792-355 for the First Time Home Buyer Program expenses.

Fiscal Impact:

\$1,657,393.00; with these actions, sufficient funds will be available in expenditure account 391-4792-355; sourced from the City's allocation of U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnership Program (HOME) funding. These funds are designed for exclusive use in affordable housing activities.

Background:

Amidst drastic increases in both housing prices and interest rates in recent years, low and moderate-income families in Lancaster have found it increasingly difficult to purchase a home. The proposed First Time Homebuyer (FTHB) Program was formulated to help these families overcome the obstacles standing in the way of homeownership.

The First Time Homebuyer (FTHB) Program will assist low-income families and individuals who wish to purchase a home, but are unable to secure a sufficient down payment to qualify for an affordable loan. The intent of this program is to offset some of the impact of high housing costs on low-income households, while encouraging investment in the community and helping to eliminate overcrowding in individual housing units. A Program loan provides down payment assistance in the form of a silent second mortgage to eligible first-time homebuyers within the Lancaster City limits.

The FTHB loan is a down-payment assistance second mortgage which becomes forgivable over time. The maximum amount of program assistance will be based on the lesser of: (1) the amount required to maintain a 33% front-end ratio (financing gap); (2) 40% of the sales price of the property, inclusive of eligible closing costs or (3) \$150,000.00.

The current maximum purchase price permitted under the Program is \$570,000.00 for both new and existing homes (values effective June 1, 2022). These maximum purchase price values are in conformance with the requirements of 24 CFR 92.254(a)(2)(iii), but are adjusted annually or through a request to HUD.

This FTHB loan is a non-interest-bearing loan, with repayment deferred until the sale, transfer, lease, or encumbrance of all or any interest in the Property without the City's prior written consent, upon a declaration of default of the Affordable Housing Restriction, or the triggering of an acceleration clause of the promissory note. FTHB Program loans will incorporate forgiveness terms on all promissory notes. Loan amounts will be forgiven at a rate of ten percent (10%) per completed year, starting with year six (6), further defined as the 61st month through the 72nd month, and continuing for the remaining ten (10) years, further defined as the 73rd month through the 180th month, coinciding with the term of affordability. This forgiveness schedule results in a 100 percent grant at the end of year 15, further defined as at the end of the 180th month.

An eligible homebuyer (i) must be a first-time homebuyer (not having owned a principal residence within three years from the date of program application), (ii) may not own other residential property, and (iii) must have a household income not exceeding 80% of area median income (currently \$95,300.00 for a family of four). The applicant also must (i) attend a City-approved Homebuyer Education Training class and (ii) secure pre-approval of a 30-year fixed rate first mortgage loan from a lender and have satisfactory credit and job/income stability. Applicants also must contribute at least 3% of the home purchase price.

In order to be eligible for funding, applicants' household income must fall below 80% of the County median income, which is published each year. The limits for 2022 are listed below:

Low-Income (80% of Area Median) *	
Household Size	Income Limit
1	\$66,750
2	\$76,250
3	\$85,800
4	\$95,300
5	\$102,950
6	\$110,550
7	\$118,200
8	\$125,800

Based on 2022 Median Income for Los Angeles County. (Effective June 15, 2022)

The FTHB Program seeks to provide financial assistance to qualified buyers who would not otherwise be able to afford a home in the City. For example, an individual may obtain a “pre-qualification” letter from a primary lender in the amount of \$250,000.00. The individual, however, can only find homes that are priced at \$375,000.00. In this scenario, the City’s FTHB Program would be utilized to provide the down payment and closing costs of up to \$150,000 in order to allow the individual the ability to purchase the home.

The FTHB Program is 100% grant funded by HUD HOME funds and includes the cost to administer the grant.

CA/sm

Attachments:

Resolution No. 22-62

Exhibit A: Program Policies and Procedures