



AGENDA ITEM NO. 29

CITY OF HAWTHORNE CITY COUNCIL AGENDA BILL

For the meeting of *January 11, 2022*

Originating Department: Housing Department

City Manager: Vontray Norris
Vontray Norris

Director of Housing: _____
Kimberly Mack

SUBJECT:

First Time Homebuyer Program – Potential Federal Funding Considerations

RECOMMENDED MOTION:

Staff recommends that the City Council receive and file report.

DISCUSSION:**Background**

The City has expressed an interest in conducting a First Time Homebuyer Program (FTHB), with funding potentially sourced from available federal resources, inclusive of Community Development Block Grant (CDBG), HOME Investment Partnerships Program (HOME), and HOME American Rescue Plan Program (HOME-ARP).

Federal Funding Requirements by Program

HOME-ARP funding was appropriated under the American Rescue Plan Act of 2021 to address the need for homelessness assistance and supportive services. Funding is limited to four activities that must primarily benefit qualifying individuals and families who are homeless, at risk of homelessness, or in other vulnerable populations. These activities include: development and support of affordable housing, tenant-based rental assistance (TBRA), provision of supportive services; and acquisition and development of non-congregate shelter units. Under the program, qualifying individuals or families are defined as those that are homeless, as defined in section 103(a) of the McKinney-Vento Homeless Assistance Act; at risk of homelessness, as defined in section 401 of McKinney-Vento; fleeing, or attempting to flee domestic violence, dating violence, sexual assault, stalking, or human trafficking; part of other populations where providing supportive services or assistance would prevent a family's homelessness or would serve those with the greatest risk of housing instability; or veterans and families that include a veteran family member that meet the preceding criteria. FTHB would not constitute an eligible use of HOME-ARP funds based on the specified activities and defined population to be served.

CDBG funding may be used to provide direct homeownership assistance to low- and moderate-income (LMI) households, subject to the statutory and regulatory requirements of the program. If direct assistance is qualified under 24 CFR 570.201(n), the following eligible forms of owner-occupied homeowner assistance can be provided:

1. subsidize interest rates and mortgage principal amounts for low- and moderate-income (80% AMI) homebuyers;
2. acquire guarantees for mortgage financing obtained from private lenders;
3. provide up to 50 percent of any downpayment required; or
4. pay reasonable closing costs (normally associated with the purchase of a home)
5. lead-based paint hazard evaluation and reduction

In addition, CDBG homebuyer assistance can also be qualified as a public service activity; however, this eligibility category is limited to down payment assistance only and is considered a part of the City's 15 percent CDBG public service cap.

Homebuyer programs are eligible under HOME subject to compliance with regulatory requirements. To be eligible, the following must be met:

1. Acquired housing must be modest and conform to the purchase price limitations of the HOME program. The current City of Hawthorne maximum purchase prices are \$798,000 for a detached single family property, and \$764,750 for a condominium/ townhome.
2. The assistance per property cannot exceed the per unit subsidy limits for the HOME program, which are currently:

Bedroom Count	Per Unit Subsidy Limit
0 Br.	\$153,314
1 Br.	\$175,752
2 Br.	\$213,718
3 Br.	\$276,482
4 Br +	\$303,490

3. To be eligible, the buyer:
 - a. must be low-income (annual gross income, adjusted for household size, that does not exceed 80 percent of median income for the area (80% AMI); and
 - b. occupy the property as their principal residence
 - c. must be credit worthy and have the financial capacity to secure a 30-year primary loan with fixed rate financing, fully amortized
 - d. must complete homebuyer counseling training
4. Applicants must be evaluated in accordance with underwriting standards that address:
 - a. housing debt
 - b. overall household debt
 - c. appropriateness of the amount of assistance
 - d. recurring household expenses
 - e. assets available to acquire the housing

- f. monthly expenses of the household, and
 - g. financial resources available to the household to sustain homeownership
5. Assisted properties must meet minimum affordability periods required under the HOME program:

HOME Subsidy	Minimum Period of Affordability
Less than \$15,000	5 years
\$15,000 - \$40,000	10 years
More than \$40,000	15 years

- 6. The City must select one of two available options that govern the resale of the HOME-assisted property during the period of affordability: a recapture option or a resale option.
- 7. The period of affordability and other critical HOME program requirements must be contained in a recorded covenant.
- 8. Properties eligible for acquisition include:
 - a. One unit single-family detached
 - b. Condominium
 - c. Townhome
 - d. Cooperative unit
 - e. Manufactured housing on a permanent foundation with permanent utility hook-ups, etc.
- 9. Property to be acquired cannot be tenant occupied with the last 90 days, or relocation obligations may be incurred.
- 10. Acquired housing must be inspected and meet the City's adopted HOME Property Standards, inclusive of lead-based paint requirements.
- 11. Subsequent to property acquisition, owner-occupancy and other program requirements must be monitored by the City throughout the period of affordability.

Program Implementation

The implementation of a First Time Homebuyer Program is generally structured into seven (7) major phases (refer to Attachment No. 1 – FTHB Program Implementation Overview):

- 1. Application
- 2. Primary Lender Commitment
- 3. Property Selection
- 4. Property Review and Inspection
- 5. Final City Loan Approval
- 6. Escrow Closing
- 7. Post-Loan Closing

Given the available funding limitations of the CDBG program, the HOME program provides the largest pool of available resources to implement a FTHB program. As a result, the implementation discussion will focus on requirements as they relate to the HOME program.

The underwriting requirements of the HOME program do not allow for a fixed amount of funding to be provided to all applicants; each funding amount must be based on the financials of the applicant in conjunction with the primary loan amount received, and the underwriting requirements. For this reason, it is critical that the first step following a City determination of initial eligibility is for the applicant to seek a lender commitment.

To facilitate affordable homeownership and reduce the potential for buyer default, as well as minimize potential City exposure to a HOME repayment liability in the event of a default, the following reasonable underwriting standards are proposed for FTHB acquisition of a HOME assisted property:

1. Housing debt: a front-end ratio set 33% of gross household income (this ratio represents the total monthly housing cost [principal, interest, mortgage insurance, taxes, insurance, HOA fees] as a percentage of monthly gross income)
2. Overall household debt: a back-end ratio not to exceed 42% (this ratio represents the total of all monthly debt expense [installment loans, credit card debt, student loans, other obligations reportable on credit reports] inclusive of housing cost, as a percentage of monthly gross income)
3. Appropriateness of the amount of assistance: the HOME assistance to be provided will be calculated on an applicant-to-applicant basis, with the loan amount based on the amount necessary to fund the financial gap after consideration of the primary loan amount, buyer contribution, and total transaction cost, in accordance with underwriting requirements. A flat rate level of assistance cannot be specified.
4. Monthly expenses of the household: the total of housing, debt, and recurring household expenses should not exceed 92% of gross income
5. Assets available to acquire the housing: a minimum buyer down payment amount of 5% of the purchase price, with an additional 2 month reserve requirement. Buyers will be required to allocate the largest amount possible from cash assets, while observing the underwriting requirements. NOTE: to render the transaction affordable in conformance with all underwriting requirements, the required amount of buyer contribution may be substantially higher than the minimum buyer contribution requirement.

Feasibility Analysis

Factors influencing the feasibility of implementing a FTHB program include:

1. The availability of housing at prices that are at or below the HOME maximum purchase price limitations
2. The interest rate available to the participant at the time of purchase
3. The ability to fund a wide range of buyers given the underwriting requirements of the program
4. The resources that the participant has available to contribute to the acquisition

A review of MLS property listings revealed that on December 28, 2021, there were 27 properties with active listings within the City of Hawthorne (refer to Attachment No. 2 - City of Hawthorne - Residential Property Listings on December 28, 2021). Of these 27 properties, 19 had sales pending, resulting in eight (8) properties remaining available for sale. As previously stated, the current HOME purchase price limits are \$798,000 for a detached single family property, and

\$764,750 for a condominium/townhouse. Applying these limits to the eight (8) available properties, two (2) single-family detached properties and three (3) condominiums/townhomes, or a total of five (5) units are at or below the HOME pricing requirements. Of the two (2) SFR properties, one is a known rental, and of the three (3) townhomes/condominiums, one of the units is also a known rental. This results in a total of three (3) properties available that comply with the HOME pricing limitations and which would not entail the potential payment of relocation obligations.

For analysis purposes, a sample proforma transaction was created to test the feasibility of the underwriting criteria. The underlying assumptions used to structure the proforma are as follows:

1. The estimated sales price of the property was set at the maximum HOME purchase price limit for Hawthorne for a detached single family property of \$798,000. This was felt to represent a reasonable expected sales price, given the limited availability of properties in the marketplace.
2. The level of City assistance provided was set to maximum per unit subsidy limit under the HOME program for a 3 bedroom property of \$276,482.
3. Affordability was established as 33% of household income.
4. The minimum buyer down payment requirement was set at 5% of the purchase price.
5. The interest rate was set at 3.25% for a fixed rate fully amortized loan, which is attainable in today's lending market provided the buyer has a FICO score of 720 or better (54% of consumers have a credit score of 720 or higher).
6. Closing costs were estimated at \$9,500.
7. Insurance costs were estimated at \$90.00 per month.
8. Property taxes were estimated at 1.2 percent of property value with the \$7,000 homeowner's exemption deducted.

Using these parameters, a spreadsheet was developed to reflect multiple affordability targets based on the levels of income eligible for participation using HOME funds (refer to Attachment No. 3 – Hawthorne First Time Homebuyer – Estimated Range of Affordability). The spreadsheet sections are detailed as followed;

1. Section 1 contains the income limits for applicant eligibility, adjusted for household size.
2. Section 2 contains sample income values and their respective affordability calculations for various selected levels of income between 80% AMI and 50% AMI for each respective household size. Affordability will vary depending on actual gross household income; these values are intended to demonstrate the variability in affordability for households that are not at the upper end of 80% AMI income limit.
3. Section 3 contains calculations which determine the loan amount required from the primary lender to complete the acquisition based on the City provision of the maximum amount of FTHB loan assistance. This calculation is provided for discussion purposes only. The actual underwriting process requires that the HOME assistance level be determined subsequent to obtaining a lender commitment and buyer contribution amount, and that the City loan only be for an amount required to fill the financing gap, subject to other program limitations.
4. Section 4 and Section 5 work in tandem. Section 5 calculates the estimated monthly housing expense for the transaction (principal, interest, taxes, and insurance [also HOA charges, if any]). Section 4 reflects the income levels and households sizes which are at

or below the calculated monthly housing expense, and therefore meet the affordability portion of the underwriting requirement.

Based on this sample transaction, the estimated monthly housing expense is \$2,977, and the only eligible applicant would be a six person household with income at or near the 80% AMI limit (near 100% of the limit) and an allowable monthly housing cost of \$3,018. This example assumes that the buyer has the 5% minimum down payment amount of \$39,500 to contribute to the transaction, and 2 months of reserve of \$5,954 (2 x \$2,977), or a total of \$42,477 in seasoned funds.

Based on the sample transaction, the following table represents the amount of buyer down payment that would be required to meet the program's affordability requirement for the specified households with income at the maximum for their respective household sizes:

Household Size	Income Limit at 80% AMI	Affordable Monthly Housing Cost @ 30% Gross Income	Down Payment Required	2 Months Reserve Required	Total Buyer Funds Required
5	\$102,200	\$2,811	\$77,716	\$5,622	\$83,338
4	\$94,600	\$2,602	\$125,739	\$5,204	\$130,943
3	\$81,150	\$2,232	\$210,755	\$4,462	\$215,217

As indicated in the spreadsheet and in the above table, even with the maximum allowable HOME investment in the transaction, substantial buyer funds are required to meet the affordability requirements at 33% of gross income.

2017-2018 HOME Funded FTHB

A HOME funded FTHB was conducted by the City during the 2017-2018 fiscal year. In conjunction with the program roll-out, a FTHB Program Workshop was conducted on April 13, 2017 to promote program participation, and was attended by approximately 50 persons. Similarly, a Lender Workshop was conducted on May 13, 2017 with 10 lender representatives in attendance. A total of 26 applications were received, with 24 applicants either denied or withdrawn prior to completion. Two program loans were funded, as summarized below:

Name	Purchase Price	Closing Costs	HOME Subsidy	Primary Loan Amount	Buyer Contribution
Romero	\$487,000	\$10,662	\$252,662	\$175,000	\$70,000
Navarro	\$515,000	\$10,000	\$252,662	\$140,000	\$132,338

Subsequent to the second loan funding, one applicant remained and was deemed ineligible, and the program closed due to lack of viable applicants. As reflected above, the two funded transactions required substantial buyer down payment contributions to fill the financing gap.

The program had total HOME funding of \$508,862, and provided potential loan amounts up to the applicable HOME per unit subsidy amount based on the bedroom count of the property being acquired. Program eligibility and underwriting criteria for the previous program are similar to those detailed above for the proposed HOME funded FTHB, with the only difference being a minimum buyer down payment of 3% for the prior program. This requirement had little impact on the implementation since prospective clients were advised that to meet affordability requirements, higher down payments would likely be required.

Conclusions

As previously stated, a number of factors impact the feasibility of implementing a FTHB program. Based on the preceding discussion, the following summary analysis is provided:

1. Of the federal resources available, HOME funding provides the most viable resource due to the amount of funding available, however is burdened with considerable regulatory compliance requirements. CDBG may be able to serve a collateral role in instances where rehabilitation is required for properties to meet the HOME Property Standards.
2. The current real estate market provides a limited inventory from which prospective applicants can select properties that meet the pricing requirements of the HOME program. As a result of the limited availability, some properties have been "bid-up" by purchasers over original asking prices, which is a difficult environment to operate in for an FTHB program.
3. Given the current inflation we are experiencing, analysts are predicting that there will be an increase in interest rates. Any rate increase would significantly impact required owner contributions. As a byproduct of increased interest rates, buyer interest in purchasing homes is generally reduced and is reflected in stabilized or reduced sales pricing.
4. As demonstrated by the estimated Range of Affordability Worksheet, given the current financial and real estate marketplace, only households of six (6) persons or higher would be able to meet the affordability requirements with a 5% buyer contribution, and only if they were at the top of the 80% AMI limit for their household size. The price of the housing is such that for this six (6) person household, meeting the minimum down payment and reserve requirements requires that the applicant contribute a minimum of \$42,477 in funds; or that small size households provide even greater buyer contribution amounts. The buyer contributions required for lower income households and smaller households sizes is even more severe, and finding income eligible buyers with these substantial resources could prove difficult.

FISCAL IMPACT:

This agenda item seeks to provide information only, and no fiscal impacts will be incurred as a result of any proposed actions.

NOTICING PROCEDURES:

72 hours posted notice pursuant to the Ralph M. Brown Act.

ATTACHMENT(S):

1. FTHB Program Implementation Overview
2. City of Hawthorne - Residential Property Listings on December 28, 2021
3. Hawthorne First Time Homebuyer – Estimated Range of Affordability



FIRST TIME HOMEBUYER PROGRAM

PROGRAM IMPLEMENTATION OVERVIEW



APPLICATION PHASE

City receives program application and submittals - Verifies income and first-time homebuyer eligibility - Obtains 3rd party verifications to confirm eligibility - Performs initial financial feasibility review - Loan Review Committee meets to determine applicant eligibility

STEP 1



PRIMARY LENDER COMMITMENT PHASE

Applicant seeks primary loan from a participating lender - Lender conducts initial underwriting and provides a conditional or firm loan commitment - City reviews primary loan commitment and calculates maximum assistance available and maximum purchase price based on applicant's financials

STEP 2



PROPERTY SELECTION PHASE

Applicant provides realtor with City's introductory letter describing program requirements, required seller disclosures and maximum purchase price - City receives MLS listing for selected property - City prepares Environmental Review - City receives/reviews contingent purchase offer/acceptance

STEP 3



PROPERTY REVIEW AND INSPECTION PHASE

City performs LBP review, city building records review, schedules and conducts property inspection, reviews termite report, transmits lead risk assessments - If inspection discloses required repairs or LBP work, coordinate repairs w/owner, re-inspect and obtain LBP clearance report

STEP 4



FINAL CITY LOAN APPROVAL PHASE

Obtain final lender loan value/loan file, review for conformance w/applicant submissions - Obtain/review preliminary title report, escrow instructions, and lender appraisal report for conformance w/program requirements - Obtain Homebuyer Education Cert. - Prepare/execute Participation Agreement

STEP 5



ESCROW CLOSING PHASE

City prepares City loan documents and affordability covenant, obtains City signatures, and transmits to escrow - City coordinates for the wire transfer of City loan funds to escrow

STEP 6



POST-LOAN CLOSING PHASE

Obtain/review loan closing documents - Obtain/review property insurance w/City as added insured - Obtain/review City lender's title insurance policy - Receive/verify recorded loan documents - Verify that loan receivable is properly booked - Transmit loan docs for secure storage

STEP 7

City of Hawthorne - Residential Property Listings on December 28, 2021

Address	Asking Price	Bed/Bath	Sq. Ft.	Garage	Yr. Bilt.	Type	HOA	Comments
5441 Ocean # 105, Hawthorne 90250	\$950,000	2/2	1554	2 A	2014	TWNHS	\$420	
4160 W 129Th St, Hawthorne 90250	\$785,000	4/2	1703	2 A	1946	SFR		Currently Rental
4565 W 137th Pl, Hawthorne 90250	\$795,000	2/1	862	1 A	1951	SFR		
4578 W 137th Pl, Hawthorne 90250	\$869,000	3/2	1,300	1 D	1941	SFR		Vacant - Rear BR permitted as family room but used as master bedroom.
13921 Kornblum Ave # 18, Hawthorne 90250	\$605,000	3/3	1723	2 A	1984	TWNHS	\$320	
4229 W Rosecrans Ave # 8, Hawthorne 90250	\$485,000	2/2	1177	2 D	1983	CONDO	\$290	Currently Rental
14514 Yukon Ave, Hawthorne 90250	\$700,000	3/3	1737		1981	CONDO	\$393	
3843 W 146th St, Hawthorne 90250	\$810,000	3/1	1013	1 A	1952	SFR		
5130 W 133rd St, Hawthorne 90250	\$725,000	3/1	1023	2 D	1947	SFR		Sale Pending
5004 W 126th St, Hawthorne 90250	\$799,900	3/1	996	2 D	1944	SFR		Sale Pending
13032 Union Ave # 303, Hawthorne 90250	\$960,000	2/2	1430	2 D	2011	CONDO	\$608	Sale Pending
5103 W 131st St, Hawthorne 90250	\$1,050,000	3/2	1346	2 A	1950	SFR		Sale Pending
5504 W 139th St, Hawthorne 90250	\$1,124,900	3/2	1098	2 A	1954	SFR		Sale Pending
5423 W 142nd Pl, Hawthorne 90250	\$1,199,000	4/3	2,027	2 D	1954	SFR		Sale Pending
5245 Pacific Terrace, Hawthorne 90250	\$1,450,000	3/3	1861	2 A	2013	SFR	\$202	Sale Pending
11841 Ramona Ave, Hawthorne 90250	\$505,000	2/1	601	1 D	1928	SFR		Sale Pending
12226 Oxford Ave, Hawthorne 90250	\$729,000	3/2	1576	2 D	1959	SFR		Sale Pending
4242 W 133rd St, Hawthorne 90250	\$950,000	3/3	1987	2 A	1947	SFR		Sale Pending
4782 W 141ST St, Hawthorne 90250	\$750,000	2/2	1370	2 A	1955	SFR		Sale Pending
4507 W 138th, Hawthorne 90250	\$875,000	4/3	1565	2 A	1942	SFR		Sale Pending
5137 W 141st St, Hawthorne 90250	\$950,000	4/2	1510	2 D	1943	SFR		Sale Pending

City of Hawthorne - Residential Property Listings on December 28, 2021

Address	Asking Price	Bed/Bath	Sq. Ft.	Garage	Yr. Bilt.	Type	HOA	Comments
5138 W 141st St, Hawthorne 90250	\$1,080,000	4/3	1985	2 D	1940	SFR		Sale Pending
3356 W 134th St, Hawthorne 90250	\$719,000	2/2	1940	0	1940	SFR		Sale Pending
11602 Tarron Ave, Hawthorne 90250	\$783,300	3/2	1903	0	1954	SFR		Sale Pending
3651 W 147th St, Hawthorne 90250	\$869,000	3/2	1262	2 A	1952	SFR		Sale Pending

HAWTHORNE FIRST TIME HOMEBUYER
ESTIMATED RANGE OF AFFORDABILITY - LOW INCOME (80% AMI)

\$276,482 Down Payment Assistance
33% Affordability

Household Size	1	2	3	4	5	6	7	8
Very Low Income (50% of AMI)	41,400	47,300	53,200	59,100	63,850	68,600	73,300	78,050
Low Income (80% of AMI)	66,250	75,700	81,150	94,600	102,200	109,750	117,350	124,900

2 Monthly Affordability Calculations Based on 33% of Monthly Income Standard for Various Low Income Percentages

VL Inc as a % of Low Inc.	Household Size							
	1	2	3	4	5	6	7	8
75% of Low Income	49,688	56,775	60,863	70,950	76,650	82,313	88,013	93,675
Max Monthly Housing Cost at 33% Affordability	1,366	1,561	1,674	1,951	2,108	2,264	2,420	2,576
80% of Low Income	53,000	60,560	64,920	75,680	81,760	87,800	93,880	99,920
Max Monthly Housing Cost at 33% Affordability	1,458	1,665	1,785	2,081	2,248	2,415	2,582	2,748
90% of Low Income	59,625	68,130	73,035	85,140	91,980	98,775	105,615	112,410
Max Monthly Housing Cost at 33% Affordability	1,640	1,874	2,008	2,341	2,529	2,716	2,904	3,091
100% of Low Income	66,250	75,700	81,150	94,600	102,200	109,750	117,350	124,900
Max Monthly Housing Cost at 33% Affordability	1,822	2,082	2,232	2,602	2,811	3,018	3,227	3,435

3 Buyer Affordability Calculations & Down Payment Requirements

Estimated Sales Price	790,000	Sample Terms		
Closing Costs	9,500	City Assistance	276,482	HOME Max. for a 3 Br. Property
City Affordability Write-Down (HOME)	0	Primary Loan Principal	483,518	
City Down Payment Assistance	-276,482	Interest Rate	3.25%	Fixed - Fully Amortized
Less Buyer Down (5% Minimum)	-39,500	Term	360	Months
Loan Required	483,518			

4 Maximum Allowable Housing Cost for Respective Household Income and Household Sizes

INCOME RANGES (as a percentage of 80% AMI)	100%					90%					80%					75%				
	Income - Household of 6	109,750	98,775	87,800	82,313	70,950	64,920	60,863	56,775	53,000	49,688	46,377	43,066	39,755	36,444	33,133	29,822	26,511	23,200	19,889
33% Affordable Monthly Housing Cost	3,018	2,716	2,415	2,264	2,108	1,951	1,795	1,639	1,482	1,326	1,170	1,014	858	702	546	390	234	78	122	
Income - Household of 5	102,200	91,980	81,760	76,650	70,950	64,920	60,863	56,775	53,000	49,688	46,377	43,066	39,755	36,444	33,133	29,822	26,511	23,200	19,889	
33% Affordable Monthly Housing Cost	2,811	2,529	2,248	2,108	1,951	1,795	1,639	1,482	1,326	1,170	1,014	858	702	546	390	234	78	122	166	
Income - Household of 4	94,600	85,140	75,680	70,950	64,920	60,863	56,775	53,000	49,688	46,377	43,066	39,755	36,444	33,133	29,822	26,511	23,200	19,889	16,578	
33% Affordable Monthly Housing Cost	2,602	2,341	2,081	1,951	1,795	1,639	1,482	1,326	1,170	1,014	858	702	546	390	234	78	122	166	110	
Income - Household of 3	81,150	73,035	64,920	60,863	56,775	53,000	49,688	46,377	43,066	39,755	36,444	33,133	29,822	26,511	23,200	19,889	16,578	13,267	9,956	
33% Affordable Monthly Housing Cost	2,232	2,008	1,785	1,674	1,561	1,448	1,335	1,222	1,109	996	883	770	657	544	431	318	205	92	79	

5 Estimated Housing Expense

Principal and Interest	2,104.30	3.25% @ 30 yrs
Taxes	783.00	1.2% Less \$7K HO exemption
Insurance	90.00	
Total	2,977.30	