



**SACRAMENTO  
HOUSING AND REDEVELOPMENT  
AGENCY**



11

January 5, 1988

Budget & Finance Committee of  
the City Council  
Sacramento, CA

Honorable Members in Session:

SUBJECT: California Homeownership Assistance Program (CHAP) -  
Buyer Assistance

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the City Council of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution approving the program, proposed funding and contract execution.

Respectfully submitted,

*William H. Edgar*  
WILLIAM H. EDGAR  
Executive Director

TRANSMITTAL TO COMMITTEE:

*John Wilkerson*  
For: JACK R. CRIST  
Deputy City Manager

Attachment



**SACRAMENTO  
HOUSING AND REDEVELOPMENT  
AGENCY**



January 5, 1988

Sacramento City Council  
Sacramento, California

Honorable Members in Session:

**SUBJECT: California Homeownership Assistance Program (CHAP) -  
Buyer Assistance**

**SUMMARY**

This report recommends approval of deferred payment, forgivable loans up to \$40,000, total, to assist five low-income families to purchase homes from Fruitridge Habitat under the California Homeownership Assistance Program (CHAP).

**BACKGROUND**

The California Homeownership Assistance Program (CHAP) is a shared equity program in which the State can assist low-income, first time homebuyers to acquire newly built homes. The prospective homeowner pays 5% down plus closing costs and negotiates the maximum conventional or FHA loan that can be supported by 25% of his/her income. The State may then finance the balance, up to 49% of the purchase price. No payments are made on the State loan until the property is resold, at which time the State receives its principal investment plus a proportionate share of any appreciation.

The program is administered through a contract between the State and a local government entity, in this instance the City of Sacramento. A commitment of loan authority is made to the local agency which is responsible for finding and sponsoring developers who will participate. The local agency has no responsibility for loan origination or approvals. The developer markets the homes, submits applications to a mortgage company which underwrites the loan and submits CHAP loan requests directly to the State. Upon approval, the State's check is passed through the local agency for deposit in escrow.

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Since its inception, three Sacramento County developments have participated in the program. A total of 15 loans have been successfully originated. The average sale price has been \$65,000, and average income of homebuyers has been approximately \$16,000.

On September 15, 1985 the City of Sacramento received a commitment for nine units to be used in Carnation Villa, in the Woodbine area of South Sacramento. The developer is Fruitridge Habitat, a non-profit housing development corporation recently established to provide affordable housing for low-income persons. The homes sell for \$67,000.

The nine units were completed by December 1986. Four subsequently have been sold. The remaining five have been involved in the underwriting process for over a year. Two of these loans have just been approved. The other three loans are still in process. The principal causes of the delays have been: (1) pressures on the mortgage lending industry, in general, over the past year, (2) problems in determining the eligibility and income qualifications of the prospective buyers, (3) mortgage lenders' lack of experience with CHAP loans, and (4) changing economic conditions and subsequent interest rates.

Meanwhile, interest charges on a construction and a predevelopment loan for the five remaining units have accumulated. It is estimated that by the end of December, approximately \$74,000 will have to be deposited in escrow to close each home. Since the sales price (and appraised value) of each is only \$67,000, there will be an approximately \$7,000 shortfall for each home. Unless this amount is deposited in escrow, the home sales cannot close. Neither HCD nor the mortgage lender can loan this additional amount based on appraised value and underwriting criteria; nor can the low-income prospective homeowner come up with the additional cash.

In the event the loans cannot close in the near future, it is likely that Fruitridge Habitat will be in default on its construction and predevelopment loans. This would have severe implications for its ability to continue development of additional low-income housing projects. Construction loans for a thirty-two unit farm worker housing project are being held up pending resolution of the Carnation Villas project. Additionally, if the homes are subsequently resold, there is no assurance that they will be affordable to their intended low-income buyers.

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Staff has discussed this situation on several occasions with Fruitridge Habitat and the State. At this point, the only alternatives we can see are either a low-interest deferred payment, forgivable loan or a home purchase grant to the intended home buyers sufficient to allow the conventional and State loans to close. If a deferred payment loan is utilized, it is doubtful that the property will appreciate sufficient to allow repayment in the very near future. Nevertheless, there is some possibility that we could recoup some of our costs if the units do sell. This must be balanced, however, with incentives to keep the units in low-income ownership. We would, therefore, recommend that the loan payments be deferred for ten years and then forgiven in 10% increments over the following ten years based on continued occupancy by low-income purchaser. This comports with similar arrangements made with the Rural California Housing Corporation (RCHC) in their self-help program and with the State policy for self-help loans as well.

## FINANCIAL DATA

The exact amount of each loan will not be known until closing statements are prepared by the Title Company. Approximately seven thousand (\$7,000.) per unit would be required if loans were closed by the end of December at current interest rates. An additional \$600 in construction loan interest accrues each month on each unit. An estimated \$40,000 should cover the shortfall if all homes are sold and close within the next several months.

Funds are available in the Mortgage Revenue Bond Fee Fund (Fund 592). Specifically, monies are available from MRB fees raised as a result of the 1987 Single Family Bond Issuance and the financing of Creekside Apartments in October and November 1987, respectively. The rest of the Mortgage Revenue Bond Fee Fund monies are committed to other purposes.

## ENVIRONMENTAL REVIEW

This project does not require environmental review.

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## POLICY IMPLICATIONS

There are no explicit policies on loans of this nature to prospective homeowners, however, the County of Sacramento has previously approved grants to developers to assure long-term affordable rental housing, particularly where it was necessary to secure a State or Federal commitment. Section 202 projects are specific examples.

Additionally, the City of Sacramento has made deferred payment, forgivable loans to prospective low-income homeowners in connection with self-help projects sponsored by Rural California Housing Corporation. A similar approach is being prepared for County consideration in connection with a Walnut Grove self-help project.

## VOTE AND RECOMMENDATION OF COMMISSION

It is anticipated that at its regular meeting of January 4, 1988, the Sacramento Housing and Redevelopment Commission will adopt a motion recommending that you take the above mentioned action. In the event they fail to do so, you will be advised prior to your January 5, 1988 meeting.

## RECOMMENDATION

The staff recommends that you adopt the attached resolution which:

1. Approves a program of financial assistance to prospective homeowners of the Carnation Villas subdivision.
2. Appropriates \$40,000 from the Mortgage Revenue Bond Administrative Fee Fund for the Financial Assistance Program.

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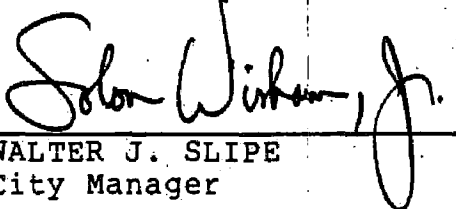
3. Authorizes the Executive Director to prepare and execute contracts for deferred payment, forgivable loans to (5) five low-income families to permit acquisition of homes in the Carnation Villas subdivision.

Respectfully submitted,

  
WILLIAM H. EDGAR  
Executive Director

Contact Person: John Molloy 440-1357

TRANSMITTAL TO COUNCIL

  
For: WALTER J. SLIPE  
City Manager

0810D

# RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

January 5, 1988

## CALIFORNIA HOMEOWNERSHIP ASSISTANCE PROGRAM (CHAP)

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

Section 1: A program of financial assistance as set forth in the staff report filed with this resolution, to prospective homeowners of Carnation Villas subdivision, is hereby approved.

Section 2: An appropriation of \$40,000 from the Mortgage Revenue Bond Fee Fund for support of the Financial Assistance Program is hereby approved.

Section 3: The Executive Director of the Sacramento Housing and Redevelopment Agency is hereby authorized to prepare and execute five (5) contracts with qualified prospective homeowners for forgivable loans in an amount not to exceed \$8,500 each for acquisition of homes by low-income families in the Carnation Villas subdivision on terms set forth in said staff report filed with this resolution.

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CHAIR

ATTEST:

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SECRETARY

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