HOUSING FINANCE

Affordability is the most significant housing problem confronting California's families, followed to a lesser extent by overcrowding and substandard quality. Affordability problems affect both renters and owners. Hit especially hard are and low- and moderate-income families. The state's affordability crisis has dramatic implications for the quality of life for millions of California households and, potentially, for the future performance of California's economy.

California has among the most expensive single-family and multi-family housing markets in the nation, and has extremely low vacancy rates in major urban areas. According to the Department of Finance, we need to build 250,000 housing units per year to keep pace with population growth. In 2004 California new housing production is expected to reach slightly over 200,000 new units over the last five years we have under produced housing at 100,000 to 75,000 per year. The result is a dramatic shortage which has caused unprecedented inflation in housing costs.

<u>According to the "California Budget Project, Locked Out of 2004: California's Affordable Housing Crisis"</u>

- Renter and owner households across California struggle to meet their housing costs. Many pay significantly more than the recommended 30% of their income toward shelter. Low-income households, in particular, are struggling with housing costs, with many spending more than half of their incomes on housing.

- Rising rents are pricing many Californians out of the markets in which they have always lived. The 2004 Fair Market Rent (FMR) for a two-bedroom apartment in San Francisco is $1,775, a level that is only affordable to families earning at least $71,000 per year -- more than the earnings from five full-time, minimum wage jobs. While this an improvement over last year, when the FMR for a two-bedroom apartment was $1,900, it is clear that affordable rental housing is at a premium in San Francisco. In contrast, the 2004 FMR for a two-bedroom Los Angeles apartment is $1,021, affordable to families earning at least $40,840 -- the equivalent of earnings from nearly three full-time, minimum wage jobs. Even in areas with lower costs, lower incomes often make rents unaffordable. In the rural counties that constitute the state's most affordable housing markets, where the FMR for a two-bedroom unit is as low as $537, a full-time worker would need to earn at least $10.33 per hour -- 153% of California's minimum wage -- to afford the rent.

- A minimum wage worker must work very long hours in order to afford even a one-bedroom unit in many of California's counties. Even in the more affordable areas of the state, such as Fresno and Bakersfield, a worker would have to work substantially more than a 40 hour work week to afford a one-bedroom apartment.

- California's 2002 homeownership rate of 58% was the fourth lowest in the nation, behind the District of Columbia, New York, and Hawaii. The homeownership rate in California is about 10 percentage points below that of the nation. Homeownership rates vary significantly across different parts of the state. In Orange County, nearly two-thirds (65.8%) of households are homeowners, while only 46.3% of those in the San Francisco metropolitan area own their homes.

Contributing factors to the housing shortage

- Housing production is inadequate.
- The 1986 Federal Tax Reform Act made investment in rental housing less profitable.
- Housing assistance both federal and state fails to meet California's needs.
- The fiscalization of land use discourages local governments from approving new housing developments.

The lack of decent, safe housing has serious repercussions for all Californians. Bay Area companies are unable to recruit new employees because housing simply is not available. Two-income families cannot find housing near their work sites, resulting in long commutes and latchkey children.

Government Housing Finance Programs

1) **Tax-exempt bond financing**: The California Housing Financing Agency (CalHFA) and local housing agencies provide low interest rate mortgage loans through the sale of tax-exempt revenue bonds. These mortgage loans are usually offered to eligible homebuyers through private mortgage brokers.

   The Federal Tax Reform Act (TRA) of 1986 limits the amount of tax-exempt bonds that can be issued annually, based on the state's population. In 2002, the state's ceiling was $2.588 billion. The TRA allows the bonds to be used for housing, student loans, industrial development, and exempt facilities.

   The California Debt Limit Allocation Committee (CDLAC) allocates the tax-exempt bonds to state and local issuers.

2) **The Federal HOME Program**: The HOME Investment Partnership Act was authorized by the Cranston-Gonzalez National Affordable Housing Act (1989). HOME is a federal block grant program which provides funds to state and local governments which, in turn, make money available for the development or rehabilitation of owner-occupied and rental units, and the provision of first-time homebuyer and rent subsidy programs.

   The HOME Program is a unique program among the many programs administered by HCD. Under HOME, applicants may apply for funding for both individual projects and for programs comprising several different types of housing projects.

   Under the funding formula, some communities in California are eligible to receive direct allocations from the federal Department of Housing and Urban Development (HUD) while other communities must compete for the general state allocation. However, a community eligible to receive a direct allocation may transfer that allocation to the state and then compete for a portion of the state allocation. This transfer can be very beneficial to a community that has a solid housing program, but needs more money than it would receive under the direct allocation formula.

3) **Low Income Housing Tax Credits**: The Low Income Housing Tax Credit provides a credit against net tax for personal income, bank and corporation, and insurance gross premiums tax

for costs related to qualified low-income housing developments. The credit is 30% of costs for the purchase of, or improvements to, low-income housing. The credit is claimed over a four-year period. The state's low-income housing tax credit parallels a similar credit in federal law.

Taxpayers -- usually housing developers -- apply to the California Tax Credit Allocation Committee for an allocation of both the state and federal credits. The amount of tax credit allocated to a project is based on the amount needed to insure the financial feasibility of the project and a number of criteria that target projects in areas or types of housing where there is significant need. The amount of state credit available is limited to $70 million adjusted annually for inflation, plus any unallocated and returned balances from prior years. [See SB 73 (Dunn) Chapter 668, Statutes of 2001]

The low income housing tax credit is unique among state tax provisions. The amount of credit available is capped and project sponsors must apply for an allocation of credits. In most cases, individual taxpayers receive tax credits as members of a limited partnership when the general partner is the project sponsor, and the limited partners receive credits based on their individual financial participation. Investors (i.e., the taxpayer ultimately claiming the credits) typically buy into a project by paying fifty to sixty cents for each dollar of tax credit received.

4) **General Obligation Bond Financing**: Prior to 1980, the federal government took the lead in financing local, affordable housing projects. Since then, however, federal housing funds have declined precipitously.

To make up a small portion of this shortfall, the Legislature enacted, and the voters approved, Propositions 77 and 84 in 1988 and Proposition 107 in 1990. Proposition 77 provided for a $150 million general bond issue: $80 million for seismic safety and $70 million for general rehabilitation loans. Proposition 84 provided for a $300 million bond issue, including $200 million for financing new construction of rental units. Proposition 107 authorized the sale of $150 million of bonds, including $100 million for the Rental Housing Construction Program. All of these funds have been spent.

In 2002 the voters approved Proposition 46, which provided $2.1 billion housing bond for a number of housing programs. It is anticipated that most of those funds will be available and allocated through 2007.

5) **Down Payment Assistance Programs**

- **CalHome Program**. This program, administered by HCD, provides funds for homeownership programs to assist low- and very low-income households become or remain homeowners. Funds are allocated in either grants to programs that assist individuals or loans that assist multiunit homeownership projects. Grant funds may be used for first time homebuyer downpayment assistance, home rehabilitation, homebuyer counseling, home acquisition and rehabilitation, or self-help mortgage assistance programs, or for technical assistance for self-help and shared housing homeownership. Loan funds may be used for purchase of real property, site development, predevelopment, and construction period expenses incurred on homeownership development projects, and permanent financing for mutual housing or cooperative developments.

  In addition, the CalHFA provides a number of downpayment assistance programs designed to help low and moderate income residents become first-time homeowners.

- **CalHFA Housing Assistance Program (CHAP).** CHAP provides a low interest deferred payment second loan for down payment assistance to first-time homebuyers who are eligible for CalHFA's first mortgage program. The first mortgage and the CHAP second loan go together. CHAP is available on a statewide basis. The maximum CHAP loan amount is 3% of the sales price of the home or the appraised value, whichever is less. The CHAP loan can be combined or layered with certain other CalHFA subordinate financing.

- **Affordable Housing Partnership Program (AHPP).** This program is a joint effort by CalHFA and cities, counties, redevelopment agencies, housing authorities, and nonprofit organizations whereby a subordinate loan is usually provided by the local entity for down payment assistance, and CalHFA provides a lower interest rate on its first mortgage to low-income first-time homebuyers.

- **High Cost Area Home Purchase Assistance Program (HiCAP).** HiCAP provides a low interest deferred payment second loan for down payment assistance to first-time homebuyers who are eligible for, and receive, CalHFA's first mortgage. The current maximum HiCAP loan is $25,000. HiCAP loans are available in Alameda, Contra Costa, San Diego, San Francisco, San Mateo, Santa Clara, Sonoma, and Ventura counties. Counties must meet the following four criteria:

  (1) they are underserved by CalHFA loans;
  (2) they are designated as CalHFA high cost areas;
  (3) there is a high employment demand; and
  (4) there is a disparity between incomes and sales prices of homes.

- **California Homebuyer's Downpayment Assistance Program (CHDAP).** This program, funded by $117.5 from Proposition 46, provides a deferred-payment junior loan for down payment and closing costs of an amount up to the lesser of 3% of the purchase price or appraised value of a home. This loan may be combined with a first mortgage and certain other CalHFA subordinate financing.

- **Extra Credit Teacher Home Purchase Program**. This program is designed to assist high priority schools recruit and retain credentialed teachers, certain administrative staff, and classified employees thus providing pupils with a high quality education. This program received $25 million in Proposition 46 funds. Procedures for this program are provided by the State Treasurer's Office through the California Debt Allocation Committee (CDLAC). A subordinate loan for down payment assistance is provided in an amount not to exceed the greater of 3% of the sales price of the home or $7,500, or $15,000 in CalHFA- designated high cost areas.

- **Homeownership in Revitalization Areas Program (HIRAP).** This program was funded by $12.5 million in Proposition 46 funds. The homebuyer must be purchasing a home in a community revitalization area targeted by a participating nonprofit organization and receive homebuyer counseling from that nonprofit organization. The local nonprofit organization must be certified and funded to provide homeownership counseling by a federally funded national nonprofit corporation. A low interest deferred payment junior loan for down payment and closing costs is provided in the maximum amount of 6% of the sales price of the home, to low-income first-time homebuyers. The loan can be used with a CalHFA first mortgage or a non-CalHFA first mortgage.

- **School Facility Fee Down Payment Assistance Program.** In 1998, SB 50 (Greene) Chapter 407, provided for the creation of the School Facilities Fee Assistance Fund within the State Treasury. Whereby $160 million was to be appropriated from the General Fund to the Department of General Services, which, in turn, contracted with CalHFA for the administration of Homebuyer Down Payment Assistance and the Rental Assistance Programs (School Fee Programs). These programs were specifically created to address the needs of homebuyers and renters that were adversely affected by the impact of school facility fees on the development of affordable housing. The $160 million appropriation contained in this bill was contingent upon the passage of Proposition 1A, the school bond approved by the voters in January 1998.

  The School Facilities Fee Assistance Fund was originally used to fund four separate programs, three homeownership programs and one rental-housing program. In order to qualify for assistance from one of the three homeownership programs, homebuyers were required to meet one of the following criteria:

  (1) live in an economically distressed area;
  (2) purchase a home with a maximum sales price of $130,000; or
  (3) meet the requirements of a first-time low or moderate income homebuyer.

  The fourth program provided assistance for sponsors of rental units for low-income tenants.
  Those programs ended in 2001, and uncommitted funds were returned to the General Fund [AB 445 (Cardenas) Chapter 114].

  Proposition 46 provided new funds ($50 million) to restart two of the School Fee homeownership assistance programs:

  (1) live in an economically distressed area and
  (2) meet the requirements of a first-time low or moderate income homebuyer.

6) **The California Housing Loan Insurance Fund (Fund)** is a public enterprise fund administered by the California Housing Finance Agency (CalHFA). The Fund's mission is to expand homeownership opportunities for eligible California homebuyers by providing innovative mortgage insurance programs.

The Fund is rated A+ by Standard and Poor's and Aa3 by Moody's. The Fund's authorizing statutes and these ratings render CalHFA mortgage insurance a credible provider of credit enhancement for bond and individual loan transactions. To further leverage its insurance capability and manage risk, CalHFA has reinsured most of the Fund's portfolio through a risk share arrangement with a private mortgage insurer currently rated AA by Standard & Poors. The Fund has equity of $47 million as of December 31, 2003.

In addition, Proposition 46 provided the Fund with up to $85 million of capital to expand mortgage insurance to new markets.[1] This helps reach new homebuyers beyond those already being served by CalHFA's Homeownership Loan Program. In addition to CalHFA's programs, mortgage insurance is available on loans purchased by the government sponsored enterprises (GSE's), national mortgage lenders, and private investors that meet CalHFA's

[1] Based on loans insured to borrowers at 120% AMI or less.

mission of providing affordable housing finance programs to underserved and low- to moderate-income homebuyers.

Partnerships with Fannie Mae and Freddie Mac have created products for diverse emerging markets that are supported by community lenders and national associations. The National Association of Hispanic Real Estate Professionals worked with CalHFA and Fannie Mae to design loan programs that take into account the borrowing characteristics of many new homebuyers in California. Freddie Mac works with major mortgage lenders and CalHFA to address down payment and nonstandard borrowing characteristics for borrowers who needed help qualifying for a home loan.

Continuous monitoring of the mortgage market coupled with potential changes to current statute will be required to increase the leverage of the Fund and meet the needs of more Californians.

Major legislation

AB 672 (Montanez) Chapter 674, Statutes of 2004:

- Provides additional down payment assistance to qualifying borrowers, under the California Homebuyer's Downpayment Assistance Program administered by the California Housing Finance Agency from 3% to 5%, who purchase a new home within an "infill opportunity zone," "transit village development district," and "transit-oriented development specific plan area."

Other legislation

AB 304 (Mullin) Chapter 553, Statutes of 2003:

- Increases down payment assistance provided in the Homeownership in Revitalization Areas Program created by Proposition 46 from 3% to 6% of the home sales price.

- Allows the California Housing Finance Agency to provide mortgage assistance to homebuyers making more than 120% of the area median income if necessary, to meet requirements for participation in an affordable housing program offered by Fannie Mae and Freddie Mac.

- Makes various technical changes to sections relating to California Housing Finance Agency's mortgage insurance program.

AB 333 (Mullin) Died in the Assembly Committee on Housing and Community Development:

- Would have required the Department of Housing and Community Development to report to the Legislature by December 31, 2004 on the progress of the CalHome Program including the number of jurisdictions accessing the program.

AB 493 (Salinas) As Introduced:

- Would have allowed CalHome funds to be used for conditional grants to individual households to rehabilitate, repair, or replace manufactured housing located in a mobilehome park and not permanently affixed to a foundation.

  As amended June 30, 2004, an urgency statute to take effect immediately (Chapter 222, Statutes of 2004):

  - Provides that a person conditionally released from the Sexually Violent Predator program shall be released in to the county of the domicile of the person prior to the person's incarceration, unless "extraordinary circumstances require placement outside the county of domicile.

AB 1426 (Steinberg) Vetoed:

- Would have dedicated $1 million of Proposition 46, housing bond funds, allocated to the Workforce Housing Reward Program for communities in the Sacramento Area Council of Governments region that participate in and meet the standards of the voluntary Regional Compact for the Production of Affordable Housing.

  Governor Schwarzenegger's veto message: "The Workforce Housing Reward Program funds, administered by the Housing and Community Development Department (HCD), were designed to be a statewide benefit to reward communities for real production of affordable housing.

  This bill inappropriately sets aside $1 million from this program to fund one regional county government, the Sacramento Area Councils of Government (SACOG), to implement their future affordable housing plan, which has not yet been determined. This bill does not take into consideration whether similar plans exist in other regions of the State or whether similar rewards were considered to encourage other regions to enter into such plans. If other similar regional plans exist, providing a special reward for SACOG presents a fundamental unfairness because other regions would not receive the same set aside funding reward.

  Additionally, setting aside valuable and depleting Proposition 46 funds for one region without going through the competitive bidding process would neglect other worthy plans for affordable housing in other parts of the state."

AB 1633 (Levine) As Introduced:

- Would have required the Department of Housing and Community Development to report to the Legislature on the effectiveness of the Jobs Housing Balance Improvement Program.

  As Amended July 1, 2003 (Died in the Senate Committee on Housing and Community Development):

- Would have allowed the Building Standards Commission to adopt building standards for any buildings outside of the jurisdiction of a state agency if it determined that uniform, statewide standards were necessary to protect the public health and safety or are otherwise in the public interest.

AB 2836 (Maddox) Failed passage in the Assembly Committee on Housing and Community Development:

- Would have revised upward the definition of "low and moderate income households" for purposes of housing elements and the Building Equity and Growth in Neighborhoods Program.

AB 2838 (Salinas) As introduced:

- Would have allowed CalHome funds to be used as secured forgivable loans to rehabilitate, repair, or replace manufactured housing in a mobilehome park.

  As amended August 16, 2004 (Chapter 683, Statutes of 2004):

  - Increases the limit of downpayment assistance available to home buyers under the California Homebuyers Downpayment Assistance Program, administered by the California Housing Finance Authority, from 3% to 6% for the purchase of a home by a first-time home buyer in a revitalization area.

  - Requires school districts to offer real property to specified public agencies that have previously provided a written request to be directly notified of a sale or lease.

SB 162 (Alarcon) Chapter 853, Statutes of 2003:

- Includes "classified employees" as eligible recipients of mortgage assistance provided under the Extra Credit Teacher Home Purchase Program.

SB 353 (Ducheny) Chapter 193, Statutes of 2003:

- Allows California Housing Finance Agency to make unsecured loans or loans secured by assets other than real property to local public entities for funding affordable housing development.

- Deletes the requirement that any covenant, condition, restriction, limitation or agreement on a multifamily rental housing development be subordinate to a CalHFA interest in the project.

SB 1228 (Perata) Chapter 569, Statutes of 2004:

- Allows loans, made by the Department of Housing and Community Development to victims of natural disasters, under certain circumstances, to be assumed by a relative who is member of the household of the original borrower if the new borrower is of moderate income or less and will reside in the home.

SB 1609 (Ducheny) As introduced:

- Would have deleted the limitation under existing law that the purpose of the CalHome Program was to support existing homeownership programs thereby allowing CalHome to assist new programs as well existing programs.

As amended August 12, 2004 (Dunn) [Failed passage in the Assembly Committee on Local Government]:

- Among other things would have deleted the provision of the Anti-NIMBY Law that allowed a local government to deny an affordable housing development because it had a State Housing and Community Development certified housing element that made adequate provision for the jurisdictions's regional housing needs for affordable housing.