

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: January 9, 2008
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number 08-06
Neighborhood Housing Program's Home Buying Assistance Tools

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6529

ACTION SUMMARY

In September 2007, the Board provided direction regarding homeownership assistance tools available through PDC. Three key components were identified at this meeting:

- Eliminate the Shared Appreciation Mortgage program and replace it with a more traditional interest bearing, deferred payment second mortgage product
- Provide an opportunity for wealth creation
- Make the tools accessible to lending partners

This resolution adopts updated financial assistance guidelines for the Neighborhood Housing Program (NHP) to implement these changes.

PUBLIC BENEFIT

- Provides an additional tool to assist first time homebuyers in the city of Portland.
- Increase minority and first-time homebuyers' access to homeownership and wealth creation opportunities.
- Increase PDC's ability to achieve first time homebuyer goals.
- Leverages public and private resources to support homeownership goals.
- Increases affordability for first-time homebuyers.

This action will support the following PDC goals:

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

After the PDC Board approved the NHP Guidelines on April 11, 2007 (Resolution 6468), and as part of the Operation H.O.M.E. initiative, staff met with community groups. Two different meetings were held; one in North Portland and the other in Lents. Both meetings provided staff with feedback and suggestions as to how we can improve and reach out to communities of color.

Through Operation H.O.M.E., participating lenders have requested access to other sources of assistance like PDC's home buyer assistance products. **The Board, in a special Homeownership Work Session in September, expressed the desire to have PDC home buying assistance tools available through partnerships with the lending industry.**

The changes included in the home buying assistance tools reflect these recommendations.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

Changes to the home buying assistance tools help achieve the following PDC and Housing Department Strategic Goals:

- Provide wealth creation opportunities.
- Supports City Operation H.O.M.E. goals to eliminate Portland's minority homeownership gap by 2015.
- Leverage PDC resources with other private resources.
- Develop and implement housing strategies that reflect community and neighborhood goals.
- Provide incentives and/or financial assistance products to achieve 20,000 unit/household production goals.
- Increase homeownership rate by at least one percent from year 2000 to 2011.
- Increase minority homeownership by 1,500 by 2011.
- Assist 3,000 first time homebuyers by 2011.

FINANCIAL IMPACT

The suggested changes provide a financial impact at different levels

- The suggested Ownership Through Partnership (OTP) changes will increase the accessibility of limited PDC funds, thereby utilizing allocated Tax Increment Funding (TIF) at a faster pace. Also, by partnering with participating lenders, PDC will forgo the income generated when PDC originates the first mortgage.

PDC will charge a 1% fee plus third party fees, for processing the OTP. This charge will cover the ongoing administration costs of the program.

- There will be no impact in processing the Secondary Assistance Loan (SAL) as it is a product PDC currently offers, and PDC will be originating the primary mortgages. PDC has the capacity to continue with this program.
- Loan recapture will also change. Currently we have three loan programs providing different types of recapture

- Shared Appreciation Mortgage (SAM) – When the property was sold or was no longer owner occupied, the PDC loan was due plus a share of up to 50% of the property appreciation. If the borrower maintained the home as owner occupied for the term of the SAM (25 years) the loan and its appreciation was forgiven.
- Jumpstart – A payment deferred loan. It became due when the first mortgage was refinanced, sale of the unit, or when the homebuyer no longer occupied the home as their primary residence at which time the entire principal plus accrued interest (at 3% rate) was due and payable. It had a maturity rate of 30 years.
- Interest-Rate Buydown – Provided a no-payment, zero-interest second mortgage that was forgivable over five years if the home remains owner-occupied.

The proposed changes will standardize the recapture guidelines. Both the OTP and SAL have a 4% annual interest rate. The loans will be due should the borrower sell, trade, or no longer occupies the property as a primary residence during the term of the loan. Both loans provide for forgiveness of debt provided the borrower meets ownership guidelines.

PDC currently has the capacity to manage the updated loan products using existing Neighborhood Housing Program origination and underwriting staff. The loan products will be implemented using current and future allocations to Homebuyer Assistance program budgets in the urban renewal areas. Homebuyer assistance budget allocations are currently exist in the FY 2007-08 Adopted Budget in the Lents and Interstate urban renewal areas and are proposed for Oregon Convention Center, River District, Downtown Water Front, and Gateway

RISK ASSESSMENT

The risk associated with the updated financial assistance tools is faster depletion of allocated funds and the need to identify additional funding sources.

WORK LOAD IMPACT

There will be a PDC workload increase within NHP and Finance. Initially, PDC can manage this workload with the current staffing compliment; however, increased lending activity over time may create the need for additional staff or technology investments to manage loan volume.

ALTERNATIVE ACTIONS

The Board can decline to adopt this resolution and continue with the existing product line and/or direct staff to make additional revisions before adoption.

CONCURRENCE

Not applicable

BACKGROUND

On September 17, 2007, staff provided the Board with an overview of PDC's practices for providing financial assistance. Since that time, guidelines for home buying assistance loans have been substantially revised in response to feedback from the Board and the community.

The Board and community have requested increased access to the home buying assistance tools, greater wealth building opportunities, and a simpler repayment calculation. Accordingly staff is recommending rescinding guidelines for three existing products (Shared Appreciation Mortgage, Interest Rate Buydown Product and Jump Start Homebuyer Assistance Product) and adopting two new products. The following summarizes the substantive changes to NHP's home buying assistance products:

- Consolidate the home buying assistance tools into two products:
 - The Ownership Through Partnership Program – this program allows access to PDC's home buying assistance products through Participating Lenders
 - The Secondary Assistance Loan Program – this program is exclusive to PDC since it provides mortgage lending with renovation
- Establish a simple recapture formula through a set interest rate of 4%
- Allows for forgiveness provided the home owner has maintained the home as owner occupied for the life of the PDC loan term

Finally, NHP will continue its work on Operation H.O.M.E. and continue to review and revise its products to achieve the City's homeownership goals.