6/20/17
ITEM 1 – STUDY SESSION
SUBMITTED BY: GRETCHEN GUTIERREZ, DVBA

Coachella Valley Regional Housing Trust
First Time Home Buyer Program

Overview:

- **Intent**: To convert renters into homeowners and reduce the number of vacant or foreclosed homes in Desert Hot Springs.
- **Process**: Low- and moderate-income, working renters in the city will be matched with homes for sale between $150,000 and $225,000. Renters will receive homebuyer training and be introduced to one or more financial assistance programs as well as to lenders working with these programs.
- **Timing**: The pilot program is planned for nine months and can begin as soon as funding is obtained.
- **Outcome**: By the end of the nine-month period six renters will have closed the purchase of a home in Desert Hot Springs. The program will have demonstrated its ability to be self-sustaining.
- **Program Start-up Costs**: In order to initiate the program, the Trust will contribute $6,000 and will obtain another $54,000 for a total of $60,000 to cover the nine-month pilot period.
- **Conclusion:** At the end of nine months, the success of the program will be assessed and a decision made regarding expanding the program.

Request: The Coachella Valley Regional Housing Trust is requesting financial and other assistance to undertake a pilot program with the dual goals of converting renters to home owners and reducing the inventory of vacant or foreclosed homes in Desert Hot Springs.

The potential homeowners would be working adults and families between 60% and 80% of the Riverside County Area Median Income. As detailed below, the estimated start up investment is approximately $60,000. If successful, the program would become self-sustaining at the end of the pilot period.

Background: In early 2016 the Coachella Valley Regional Housing Trust published its report, *Underserved by the Market,* which surveyed the condition of the housing market in the Coachella Valley and highlighted the disparity between the cost of housing available in much of the Valley and the ability of many work-force Valley residents to pay for that housing.

Upon completing the report, the Trust elected to design a test program that would address this disparity, initially on a limited basis, but then, if successful, to be expanded. After considering several possibilities, it was determined that the City of Desert Hot Springs had an unusually large percentage of abandoned or or foreclosed homes that had been owner-occupied, but were now either vacant or owned by investors and held for rental. In most cases these homes had been purchased by the investors at the bottom of the financial crisis, and in a number of cases those investors are approaching a time when they would like to sell the properties and recognize whatever value they have created.

The City expressed a desire to participate in such a program and helped the Trust identify a number of possible houses. In addition, the Trust worked with a local real estate broker who has represented some of the investors. From this work, the Trust has identified a number of homes that would be attractive to possible buyers and could be purchased for an affordable price. In most cases these homes have had required repairs and improvements completed and little or no additional work would be necessary. Of an initial list of investor-owned homes provided by the broker, 75% of them were occupied by renters, with 25% vacant.

In parallel with identifying a supply of homes, the Trust worked to identify various programs currently available in Desert Hot Springs that provide ways for lower-income families to secure funds for down-payments and closing costs as well as stretch their monthly payment capacity. These include:

1. Mortgage Credit Certificates;
2. Riverside County EDA First Time Home Buyer Program;
3. Individual Development Accounts;
4. First Time homebuyer Education;
5. FHA or USDA loan programs
6. BBVA Compass loan program.

Each program has its own set of qualifications and not all programs will work together nor for all homes or buyers. However, all of them generally work for homes under $250,000 and a family of four with an income of approximately $52,200. Sample acquisition structures are shown on Attachment 1.

Although there are some exceptions, for most programs, a first time homebuyer is someone who has not owned a home in the last three years. In many cases, the homes identified have been occupied by renters for at least three years and the current occupants would qualify. In order to avoid displacement, the initial efforts to match potential buyers with available homes would focus on vacant homes or on those where the renter is interested in purchasing their home. If the existing tenants do not wish to purchase the house, that house would be designated as available on turnover. In addition to the investor-owned houses, homes listed for sale could also be considered, although in these cases some upgrades might be required before sale.

Homes identified in Desert Hot Springs range in price from $150,000 to $225,000 and are typically 3 bedrooms with 2 baths and contain 1,350 to 1,700 square feet. Utilizing a combination of the funding sources outlined above, such a home could be affordable to a family with annual income of as low as $45,000. Smaller homes could be even more affordable.

Implementation: In order to undertake this program on a pilot basis, two part-time staff and minimal overhead expenses would be required: An intake and acquisition processor and a program manager.

The intake processor would work with brokers, county staff, and city staff to identify potential buyers and coordinate the paperwork among the various funding programs. This person would most likely have loan processing or escrow company experience. This position would require 20- 25 hours per week. Appropriate compensation for this contract position would be in the range of $20-25 per hour or, at the upper end, $2,150 per month.

The program manager would refine program implementation, work to ensure the full coordination of all funding sources, coordinate with one or more brokers and investors to identify appropriate houses, and oversee the work of the intake and acquisition processor. This position requires experience in real estate acquisition and financing and some familiarity with publicly funded development and would require 8-10 hours per week. Appropriate compensation for this contract position would be in the range of $50-60 per hour or, at the upper end, $2,580 per month.

An allowance of $500 should be provided for miscellaneous overhead expenses including copying, mileage, telephone, and other similar costs.

Start-up expenses including a computer system, multifunction printer and copier, legal services, and others are budgeted at $5,000. Additionally, a contingency allowance of $5,000 is recommended.

It is anticipated that office space could be provided on a pro bono basis by a local community group.

For a nine-month pilot program, funding would be required as indicated below:

Processor at $2,150 per month	19,350	
Program Manager at $2,580 per month	23,220	
Overhead at $500 per month	4,500	
Start-up	5,000	
Contingency	8,000	
Total	$60,070	(rounded to $60,000)

The Trust would charge a fee to be included in the home financing of approximately 5% of the acquisition cost for each home. Assuming an average cost of $200,000 per home, the Trust's fee would be $10,000: based on the above budget, the program would be self-sustaining if it converts six rental households to homeownership in the nine-month period.

Funding Approach: The Trust is prepared to commit 10% of the pilot program cost, or $6,000, from its funds and is seeking an additional $54,000 for other sources.

Coachella Valley Regional Housing Trust

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Attachment 1

Illustrative Acquisition Financing in Desert Hot Springs

Case Study Number		Square Feet	Bed rooms	Bath Rooms	Acquisiton Cost	Transaction Costs	Total Costs	Required Down Payment	Loan Amount	Monthly Payment	Insurance & Property Taxes	Total Housing Cost	Monthly Income Required	Annual Income Required	Income Level Reached
House 1	S-FHA	975	2	1	$ 140,000	$ 14,200	$ 154,200	$ 7,000	$147,200	-$ 816	$ 204	$ 1,020.41	$ 3,061	$ 36,735	Low
House 1a	C-HFA	975	2	1	$ 140,000	$ 14,200	$ 154,200	$ 28,000	$126,200	-$ 638	$ 204	$ 842.23	$ 2,527	$ 30,320	Extremely Low
House 2	FHA	1350	3	2	$ 200,000	$ 16,000	$ 216,000	$ 7,000	$209,000	-$ 1,159	$ 292	$ 1,450.61	$ 4,352	$ 52,222	Low
House 2a	C-FHA	1350	3	2	$ 200,000	$ 16,000	$ 216,000	$ 40,000	$176,000	-$ 976	$ 292	$ 1,267.62	$ 3,803	$ 45,634	Low

Riverside County Area Median Income 2107 =	$65,000
Low Income =	$ 53,600
Very Low Income =	$ 33,500
Extremely Low Income =	$ 24,600

Cash to Close	1	1a	2	2a
Down	$ 7,000	$ 28,000	$ 7,000	$ 40,000
Closing	$ 14,200	$ 14,200	$16,000	$ 16,000
Reserves	$ 5,102	$ 1,684	-$ 976	-$ 976
	$ 26,302	$ 43,884	$22,024	$ 55,024