

**CITY OF OAKLAND**  
**AGENDA REPORT**

TO: Office of the City Manager  
ATTN: Robert C. Bobb  
FROM: Community and Economic Development Agency  
DATE: December 10, 2002

RE: **AN INFORMATIONAL REPORT ON AFFORDABLE HOMEOWNERSHIP  
ISSUES AND THE CITY'S EFFORTS TO ENCOURAGE AND EXPAND  
AFFORDABLE HOMEOWNERSHIP OPPORTUNITIES**

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**SUMMARY**

This report provides Council with an analysis of the reasons for the high subsidies required by affordable homeownership developments, discusses the City's current housing policies and programs, and makes recommendations to improve the efficiency and effectiveness of the City's efforts to expand homeownership opportunities for low and moderate income households.

Staff is recommending that the City maintain its existing policy of allocating funds equally between homeownership and rental housing, but is also recommending that greater emphasis be given to the more efficient homebuyer assistance programs and that homeownership development programs focus on areas that have low ownership rates or are part of a broader revitalization program. Additional changes are suggested for the Mortgage Assistance Program (MAP) and the Public Safety Employees and OUSD Teachers Downpayment Assistance Program (PSE-DAP). These changes are intended to ensure that homeownership assistance is provided to the largest number of people and to those for whom assistance is most urgently needed.

**FISCAL IMPACT**

This report is informational only; no fiscal impacts are included.

**BACKGROUND**

At the July 9, 2002 Community and Economic Development Committee meeting, City Council directed staff to prepare a report analyzing the obstacles to affordable home ownership development and what the City can do to encourage such projects. This report responds to that direction.

**History and Development of City Housing Policies**

The City's affordable housing policies, including policies to support homeownership activities, are established in a number of policy and program statements.

Item: \_\_\_\_\_  
CED Committee  
December 10, 2002

- A 1993 Housing Policy Statement adopted by the City Council (see Attachment A).
- City Council Budget Priorities for FY 2001-03, which include:
  - Affordable Housing: Support the development of affordable housing opportunities in all areas of the City. Projects and programs should emphasize the importance of diversity of incomes in housing development.
- At its November 8, 2002 retreat, the City Council discussed goals for FY 2003-05, including the following:
  - Develop a sustainable city
    1. Achieve population and economic growth
    2. Support the development of housing, including affordable housing
- The Consolidated Plan for Housing and Community Development for July 2000 – June 2005, adopted by the City Council in June 2000, recognizes the critical need for development of affordable housing and establishes seven high priority goals, including the development of new affordable housing for both renters and owners, the preservation of existing affordable housing, and expansion of homeownership opportunities.
- In order to implement these City Council policies, the Community and Economic Development Agency has adopted the following vision and mission statement as operational guidelines:

***Vision***

Everyone will have decent and affordable housing in healthy, sustainable neighborhoods with full access to life-enhancing services.

***Mission***

The Community and Economic Development Agency supports:

1. the creation and preservation of decent, affordable housing;
2. organizations that provide shelter and services to prevent and reduce homelessness; and
3. organizations that provide economic development, public facilities, infrastructure, and social services for low and moderate income communities.

All of these policies and goals include expansion of affordable housing for both homeowners and renters as high priorities for the City.

### **Policy Regarding Allocation of Housing Funds**

In 1993, the City Council adopted a policy regarding the allocation of affordable housing funds (primarily HOME and Redevelopment Agency funds available for both housing development and first-time homebuyer programs, but not including CDBG funds devoted to housing rehabilitation and housing services). This policy established a goal of dividing the funds equally between rental housing and homeownership activities.

This policy has been reaffirmed on several occasions:

- In June 1998, the City Council held a working session on affordable housing needs and reaffirmed the allocation policy at that time.
- On July 10, 2001, in response to a staff report concerning the allocation of Affordable Housing Bond funds and issues surrounding affordable housing development, the City Council again affirmed the policy.
- Most recently, in response to a June 2002 report concerning the allocation of funds between rental and ownership projects, the City Council did not accept a recommendation to modify the allocation policy.

While allocations have varied from year to year, over the long run the City's actual allocations have been consistent with this goal.

### **Evolution of Affordable Homeownership Programs**

Since the inception of its housing programs, homeownership has been a major focus of the City's efforts. The City has invested considerable funds and staff time to programs that support, stabilize and expand Oakland's stock of owner-occupied housing and promote affordable homeownership opportunities.

In the late 1970's the City participated in the HUD Urban Homestead Program, which assisted 120 families to acquire homes at very low costs. During the 1980s and 1990s, the City issued four series of housing revenue bonds that provided mortgage financing at below market interest rates for approximately 1,000 lower income homebuyers.

Over the past decade, the City has developed and implemented a variety of programs to provide affordable homeownership. Current programs include:

#### Programs to Assist Purchasers of Existing Homes

Mortgage Assistance Program

Public Service Employees and OUSD Teachers Downpayment Assistance Program

Oakland Homeownership Assistance Alliance

Teacher Mortgage Assistance Program

Section 8 Homeownership Program (being developed by the Oakland Housing Authority)

Programs for New Construction and Substantial Rehabilitation of Ownership Housing  
Affordable Homeownership Development Program  
Community Land Trust Program  
Vacant Housing Acquisition and Rehabilitation Program

Descriptions of all these programs are contained in Attachment B to this report.

**KEY ISSUES AND IMPACTS**

There are a number of inter-related factors which make it more difficult for the City to expand homeownership opportunities and develop new affordable ownership housing. These include the limited ability of municipal governments to change local housing markets, low incomes of potential first-time homebuyers, high prices for existing homes, rapidly increasing costs for development of new single family housing, and a lack of available funding sources that the City can leverage with its own investments. Taken as a whole, these factors result in a substantial gap between the actual cost to build new housing and the amount a first-time homebuyer can afford to pay. Because few other sources are available, this creates a need for very large subsidies from the City to close this gap.

**Limited Ability of Local Government to Make Major Changes in the Housing Market**

The City's housing policies and programs operate within a broader context that includes local and regional housing markets, the finance and banking system, and patterns of economic development. Housing affordability is a complex issue that is the result of many factors, including employment and income trends, regional patterns of demographic and economic growth, changes in interest rates, and changes in the prices of land, construction labor and building materials. These broad factors have a direct impact on both the supply of and the demand for housing. These forces are generally beyond the ability of the City to control, and they set limits to what can be achieved through local housing efforts.

The financial resources that are available to the City are limited, and can only address a small portion of the City's housing needs. While City housing programs produce real improvements in housing conditions and affordability for lower income households, they do not fundamentally change the housing market and the forces that shape it.

As an example, the City has set a goal of increasing the homeownership rate in Oakland from the current rate of 41.4 percent to 50.0 percent, which would move the City closer to the statewide rate of 57 percent and the national rate of 67 percent. According to the 2000 Census, Oakland has roughly 88,000 renter-occupied units and 62,000 owner-occupied units. In order to achieve a homeownership rate of 50 percent, the City would need to build 26,000 more owner-occupied units than rental units, or convert 13,000 rental units to homeownership units. Clearly both of these approaches are beyond the capacity of the City.

Similarly, efforts to increase housing affordability for all Oakland residents would require a combination of efforts to reduce housing costs and increase household incomes. In theory, increases in the supply of housing should result in a decrease in prices, all other things being equal. However, the increase needed to produce this effect would be substantial. Moreover, housing markets are extremely dynamic, and substantial levels of housing development would likely produce changes in housing demand, such as attracting greater numbers of people to Oakland from other areas. The last several years have already seen an influx of new residents to the City who are attracted to market-rate housing that is more affordable than the surrounding region, even if it is not affordable to Oakland's existing lower income population. On the demand side, significant increases in income would result in part in increases in housing costs, which might stimulate new construction if market rents and sales prices were to reach a level that made housing development more profitable.

### **Incomes of First Time Homebuyers**

Most of the City's homeownership programs are directed toward creating affordable housing opportunities for first-time homebuyers. Oakland's renter households, who make up the population of potential first-time homebuyers, have limited incomes that make homeownership difficult to achieve. According to the 2000 Census, the median income for renter households is \$29,276. Even with extremely liberal assumptions about underwriting standards, and assuming that these households have no employment or credit history problems that make it harder for them to obtain mortgage financing, these incomes are too low to qualify for a mortgage greater than \$120,000. Even with very high savings equal to an entire year's income, these households cannot purchase a home for more than \$150,000.

To purchase a house priced between \$300,000 and \$350,000, which is more typical of home prices in Oakland, would require an income of \$75,000 or more. According to the 2000 Census, fewer than 10 percent of all Oakland renter households have incomes at this level.

### **Prices for Existing Homes**

Despite the recent economic downturn, price increases have not significantly moderated and home prices continue to rise much faster than either the inflation rate or household incomes. As a result of these increases, there are few homes available on the market that are affordable to Oakland's potential first-time homebuyers. Median sales prices are now in the range of \$300,000 to \$350,000.

To date there has been a limited supply of homes priced below \$200,000. Some of the lower priced homes are in less than standard condition, and may need significant repairs and improvements, which adds to their cost. However, in some neighborhoods it is still possible to buy homes in this price range, which is attainable for lower income households participating in the City's first-time homebuyer programs.

## **Development Costs**

The cost of constructing new single-family homes has risen sharply in recent years, driven by increases in the costs of land, materials, and construction labor. Of the major components of housing cost, only interest rates have remained low, which reduces the cost of construction financing.

Five City-assisted homeownership developments are currently in predevelopment or construction. On average, the cost of construction for each of these units is \$263,694. This figure, however, includes several projects which began construction more than a year ago. Recent proposals for ownership housing have reflected a dramatic increase in construction costs. In the 2001 housing funding round (under the City's annual Affordable Housing NOFA process), the average development cost for ownership units – all of which were townhouses or duplexes rather than single-family detached homes – was \$305,840. This is a nearly 17% increase in development costs in less than three years – far more than the rise in wages.

City-assisted projects tend to cost more than private projects, with little or no correlating increase in quality. This is partially due to the City employment programs with which City-assisted developers must comply. The City Council recently approved a recommendation from the City Manager's Office and the Community and Economic Development Agency (CEDA) that a moratorium be put into place on certain of these programs for affordable housing development projects. Under the moratorium, the Local/Small Local Business program does not apply to projects that were awarded funds on March 12, 2002 from the NOFA issued in August, 2001. It will remain in effect until any modifications are made to the City's employment programs in response to the "Moving Oakland Forward" initiative. Housing Development staff is evaluating the success of this moratorium in reducing development costs.

However, under State law (for Redevelopment Agency funds) or Federal law (for HOME and CDBG funds), housing development projects must still pay state wages, which are reported to be a significant factor. In addition, developers are subject to the City's living wage ordinance and participate in the Oakland Apprenticeship Workforce Development Partnership System.

Because of these requirements, publicly-assisted ownership projects may cost as much as 10 to 30 percent more than comparable projects that are financed without public funds.

## **Lack of Funding Sources for Development of Affordable Owner-Occupied Housing**

Another hurdle to developing affordable homeownership units is the lack of outside funding. In contrast to rental housing for which the City or Agency is usually one of several funding sources (see Matrix A, below), there are very few public programs which fund affordable homeownership developments. Those that are available provide relatively small amounts of money or provide loans at rates that do not significantly reduce sales prices.

The main program available to homeownership projects, the Affordable Housing Program (AHP) of the Federal Home Loan Bank, only provides \$7,500-10,000 per unit. As a result, City funds allocated to affordable ownership projects leverage fewer outside funds and require more City funds per unit than affordable rental projects.

Matrix A: Sources of Non-City Financing for Affordable Rental and Ownership Housing

Funding Source	Federal Tax Credits	HUD (Senior/ Disabled)	Private Loan	CHFA	State (MHP)	Federal Home Loan Bank (AHP) Max: \$7,500 per unit
<b>Rental Projects</b>						
Under 50% AMI*	X	X	X	X	X	X
Under 60% AMI	X	X	X	X	X	X
60%-80% AMI			X	X	X	X
80%-120% AMI			X			
<b>Ownership Projects</b>						
Under 50% AMI			X			X
Under 60% AMI			X			X
60%-80% AMI			X			X
80%-120% AMI			X			

\*Area Median Income (AMI) as determined annually by HUD and adjusted for household size.

Because of the lack of substantial sources of other funding for ownership projects, and the City's policy of limiting development subsidies to 40 percent of development costs, it is extremely difficult to make ownership projects affordable to households with incomes significantly less than 80 percent of median income (\$58,000 for a family of four), and ownership projects tend to serve a much higher range of incomes than rental projects. The need to save enough funds to pay for downpayment and closing costs also makes ownership more difficult for low income buyers, as do credit requirements that are often too stringent for many low income families.

For example, in order to make a \$300,000 home affordable to a lower income family with an income of \$50,000, the City would need to provide subsidies of at least \$120,000, assuming the family had the necessary savings to provide \$15,000 for downpayment and closing costs (this assumes an interest rate of 6.25%, a 3 percent downpayment, 2 percent for closing costs, and a qualifying ratio of 30 percent of income for mortgage, insurance and taxes).

There are some prospects for increased funding from outside sources for affordable homeownership projects, but these may not be available for several years. The difficulties of producing new affordable homeownership units have been recognized at the federal level and legislation authorizing federal tax credits for ownership project was introduced in Congress this year.

Other sources of funding available for affordable housing projects, such as tax increment revenues from the City's redevelopment areas and the HOME Partnership grant, are anticipated to remain approximately the same in the near future. At some point the incorporation of additional areas of the City as redevelopment areas will increase the amount of funds available to the Agency that are reserved for affordable housing. Once that occurs, the Redevelopment Agency may wish to consider whether to issue additional housing bonds as it did in 2000.

With the passage of Proposition 46 in November of this year, additional funding from the State will become available. Staff will pursue all available avenues to increase the chances of success for Oakland projects applying for such funds, and will seek wherever possible to combine these funds with local sources to obtain maximum effect.

Proposition 46 allocates \$405 million for seven (7) homeownership programs that would provide (1) a variety of down payment and mortgage assistance to low and moderate income homebuyers, (2) grants to cities to assist homeownership programs for new construction, rehabilitation or purchase of existing homes; (3) down payment assistance to offset school facility fees assessed against construction of new housing; and (4) homebuyer assistance for school personnel. The specific programs and funding amounts are shown below.

<b>Program</b>	<b>Description</b>	<b>Amount (millions of \$)</b>
Homebuyer's Down Payment Assistance	Deferred low-interest loans up to 3 percent of home purchase price for first-time low- and moderate-income homebuyers.	\$117.5
CalHome	Variety of homeownership programs for low-income households.	115.0
Building Equity and Growth in Neighborhoods	Grants to local governments to fund homebuyer assistance in high-density developments.	75.0
Nonprofit-Sponsored Counseling	Down payment assistance for first-time, low-income homebuyers participating in specified counseling programs.	12.5
Self-Help Construction Management	Grants to organizations which assist low-and moderate-income households in building their own homes.	10.0
School Facility Fees	Down payment assistance to eligible homebuyers to cover some or all of the fees paid to school districts to fund new school facilities.	50.0
School Personnel	Loans to school personnel for down payment assistance.	25.0
<b>TOTAL</b>		<b>\$405.0 million</b>

### **PROGRAM DESCRIPTION**

The City has directed its efforts to increase affordable homeownership through two avenues - programs to assist purchasers of existing homes and programs to assist new construction and substantial rehabilitation of ownership housing. In addition, the City funds programs that

provide education and support to first time homebuyers to successfully acquire, maintain, and retain their homes.

Both categories of programs help low and moderate income households to achieve homeownership and realize the American Dream, however, their goals, costs, and impacts differ as will be discussed in the sections below.

### **Programs to Assist Purchasers of Existing Homes**

The City has two programs designed to increase opportunities for low income families to become homeowners – the Mortgage Assistance Program (MAP) and the Public Safety Employees and OUSD Teachers Down Payment Assistance Program (PSE-DAP). Other programs for increasing homeownership opportunities include the Section 8 Homeownership Program, which is being developed by the Oakland Housing Authority, a special homeownership assistance program for Oakland teachers, and the Oakland Homeownership Assistance Alliance, which is a joint effort by lenders, nonprofits and the City to provide expanded homeownership assistance. Summaries of all these programs are included in Attachment B.

#### *Mortgage Assistance Program*

The Mortgage Assistance Program (MAP) was established in July 1993 to promote neighborhood stabilization and revitalization through homeownership opportunities for low- to moderate-income citizens of Oakland. Initial funding was provided through the federal HOME program. Guidelines and requirements for participation were based on the regulations governing the HOME program.

Initial program requirements included a Housing Quality Standards inspection, obtaining a termite report and clearance, and a roof inspection and certification that the roof had at least two years remaining life.

In the first few years of the program, funding was allocated by the City Council on an as-needed basis. Beginning in 1996, the program has received annual appropriations of \$2,500,000 from a combination of HOME and Redevelopment Agency Low and Moderate Income Housing funds.

Until 1999, all of the funds were used before the end of each fiscal year. In 1999, applications for the program began to decline because of a surge in home prices – up to 50% in some neighborhoods. In addition, restrictions imposed by the of HOME Program’s regulations further reduced the supply of units available to buyers and increased the price of available homes. Since houses had to pass rigorous inspections, properties essentially had to be in “move-in” condition to qualify for MAP loans. Any needed repairs had to be completed prior to close of escrow. This caused an added expense to sellers that was passed on to buyers in the form of higher costs.

In February 2001, the City’s program guidelines and funding sources were modified significantly. Loan limits were increased to \$50,000, and HOME funding was discontinued to

allow more liberal program guidelines to be adopted. Since that time, all program funding has come from Redevelopment Agency Low and Moderate Income Housing Funds.

The MAP program was intended to meet several objectives: increase homeownership opportunities for lower income families, increase the City's homeownership rate, and promote neighborhood stability through more homeownership.

The program has proven highly successful in meeting the first objective. Since the program was restructured in mid-2001, 105 loans have been made, most at the maximum allowable amount of \$50,000. Nearly half these loans have assisted households with incomes less than 60 percent of area median income. The median purchase price was \$213,000.

However, the program has not had a significant impact on homeownership rates since most houses are being purchased from existing owner-occupants. In addition, because there are no affordability restrictions and the units can be sold at market prices, while the City loan is repaid with interest, there is no guarantee that the home will remain affordable to lower income buyers or that the funds received as repayment will finance a new affordable purchase.

#### *Downpayment Assistance Program*

In 1999, the City Council authorized a new Downpayment Assistance Program (DAP), targeted to public safety employees (police and fire departments). Using redevelopment agency funds, the program provides loans of up to \$10,000 with no payments due for the first 5 years. The program was subsequently amended to extend eligibility to Oakland Unified School District teachers.

The DAP program has not been successful in meeting its objectives. Only four loans have been made since the program began. Despite extensive marketing and outreach efforts, few teachers and public safety employees have participated. The major reason for this is that household incomes for the target population tend to be higher than 120 percent of area median income, the maximum income level that can be assisted with Redevelopment Agency funds.

The program might prove more successful if extended to all households, with income limits of either 100 or 120 percent of area median income for households not in the initial target population.

As is true for the MAP program, while the DAP program can provide greater opportunities for homeownership, it is not likely to have a significant impact on the City's homeownership rate.

#### *Costs and Impacts of Homeownership Assistance Programs*

The MAP program has proven to be an efficient mechanism for expanding homeownership opportunities for low and moderate income homebuyers. With subsidy amounts ranging from \$10,000 (for DAP loans to homebuyers with incomes up to 120 percent of area median) to

\$50,000 (for MAP loans for homebuyers with incomes less than 80 percent of the area median income), the programs are highly cost efficient. As noted above, to date the MAP program has been successful in assisting households with incomes as low as 50 percent of area median income (and even lower in some cases).

Because these programs are structured as deferred loans, there are no long-term affordability restrictions on units purchased with City assistance. Homes can be resold at market value, which is usually too expensive for a low or moderate income household to afford without new financial assistance. While the City's loans may be assumable, in many cases additional assistance would be required to ensure affordability.

These programs should therefore be seen as mechanisms for increasing opportunities for affordable homeownership, but not as tools to provide long-term affordable housing or to prevent gentrification.

### **Programs to Assist the Development of Affordable Homeownership Units**

To increase the stock of homes that remain affordable to low-income families over the long term, despite increases in market prices, the City currently assists in the development and rehabilitation of affordable homeownership units through the Vacant Housing Acquisition and Rehabilitation Program (V-HARP), Affordable Homeownership Development Program (AHDP), and the new Community Land Trust Program (CLT). The primary goal of these programs is to provide new homeownership units that have long term affordability requirements and that are affordable to low and moderate income households. Attachment B includes summaries of these programs.

#### *Earlier Programs for New Construction of Ownership Housing*

In the past 6 years, the City has provided development funding that has resulted in construction of 435 new units affordable to low to moderate income households. The City's funds were usually provided as construction financing to the developer. When construction is completed, a portion of this financing was converted into second mortgages to make the units affordable to households with incomes up to 120 percent of area median income (this limit was recently reduced by the City Council to 100 percent). The second mortgages have been provided with a variety of repayment provisions — shared appreciation, shared equity, or below market rate interest loans. Payments are deferred until the homes are sold or refinanced, and in some cases can be fully forgiven at the end of the affordability period as long as the buyers are in compliance with the affordability restrictions.

One of the drawbacks of these older programs is that there is no requirement that homes be resold to low and moderate income buyers. In addition, assisted homes can be resold at market value, which is usually not affordable to low and moderate income households. Often the loan repayments to the City are insufficient to make the unit affordable to a subsequent homebuyer.

*Current Programs for New Construction of Ownership Housing*

The current programs for development of *new affordable homeownership* units, AHDP and CLT, provide low income homeowners with a different version of the American Dream. Buyers under these newer programs enjoy most of the benefits that are received by homeowners in the private market. The major difference is that the appreciation that they can realize when they sell their homes will be limited to ensure that assisted homes remain a permanent source of affordable homeownership housing.

The Affordable Homeownership Development Program (AHDP) requires that *new units* developed under the program be kept affordable in perpetuity. This program is funded through the Affordable Housing Notice of Funds Availability (NOFA). The City provides a forgivable construction loan, up to 40% of the total development cost for the affordable units, to the developer in exchange for restricting the sales price to a level that is affordable to households earning not more than 100% of the area median income. The City loan helps to cover the difference between the affordable sales price and the actual cost of construction of the home. Sales prices are restricted, in perpetuity, to a level that is affordable to the target income level. Under this program, no second mortgages are required in order to keep the units affordable. Sellers are able to realize modest appreciation, but in recognition of the substantial public subsidy involved (up to 40 percent of development cost, resulting in subsidies of as much as \$120,000 per unit), the prices are restricted to affordable levels for the useful life of the property.

The new Community Land Trust (CLT) program is also intended to create *new affordable homeownership opportunities*, but limits the City's subsidy to approximately \$100,000 per unit. This program permanently lowers the market price of assisted homes by selling only the improvements on the land (the actual buildings), rather than the land and improvements as is common practice. Ownership of the land is retained by a Community Land Trust that is a community-based nonprofit organization. CLTs provide low-income homebuyers with limited returns on their equity in exchange for having received substantial public subsidies. This ensures that the housing remains available as a community resource, preserving affordability and diversity, particularly in neighborhoods that may be experiencing gentrification and displacement of their lower income populations.

Oakland's Community Land Trust program will provide funding to a non-profit corporation, the Oakland City-wide Community Land Trust (OCCLT), whose mission is to provide permanently affordable homeownership opportunities for low-income households. The OCCLT will acquire homes produced by private developers.. Improvements (i.e. houses) on this land are sold to individual homeowners, while the land is leased to homeowners for their exclusive use through 99-year ground leases. Homebuyers must earn less than 80% of the area median income. Sales prices are set to allow total housing costs (including mortgage, utilities, maintenance, etc.) to be no more than 30% of targeted household incomes. Homes may be resold only to lower income households at affordable prices.

*Current Programs for Development of Affordable Homeownership through Rehabilitation*

Unlike the AHDP and CLT, the Vacant Housing Acquisition and Rehabilitation Program (V-HARP) focuses on funding the acquisition and *substantial rehabilitation* of vacant, blighted residential buildings. In the process, these units will be added to the affordable housing stock and provide additional rental or homeownership opportunities for low and moderate-income households. For homeownership units, the Agency provides a short term loan to the developer to acquire and rehabilitate the units in exchange for selling the units to low or moderate income buyers. Under this particular program, eligible buyers may have incomes of not more than 120 percent of area median income. Low income buyers (earning not more than 80 percent of area median income) will be able to use several mortgage assistance programs from the City and other agencies.

Homeownership units produced under the V-HARP program will have 45 year affordability requirements and must be sold only to low and moderate income households at prices that can not exceed fair market value. With the exception of the long term affordability requirement, this program allows the buyer to receive all of the benefits of traditional homeownership. The gap between market value and an affordable price would be filled by using the City's mortgage assistance programs and any other homeownership programs that may be available.

*Costs and Impacts of Housing Development Programs for Homeownership*

In 2002, the average cost to construct an ownership unit that is permanently affordable to a lower income household (earning up 80% AMI) reached \$300,000. Due to the high cost of developing these units, the City Council decided in June 2002 that households earning up to 100% of the area median income (\$74,000 for a household of four) would be eligible to buy new ownership units developed with City assistance. Increasing the maximum income limits on some of the units in a project allows developers to increase the sales price for some of the units and, consequently, repay the construction loan without needing a larger City subsidy (currently the City subsidy cannot exceed 40% of the total development cost).

As described in the Key Issues and Impacts section, only the City, private lenders, and one other source provide funding for the construction of affordable homeownership units under the AHDP. Because there are so few sources of funding for the development of these units, developers will require as much as \$100,000 to \$120,000 per unit in City subsidies. This is more than twice what is needed to provide mortgage or downpayment assistance to a first time homebuyer of an existing unit.

Because of the high costs and subsidy requirements, new affordable ownership units will be priced to serve households with incomes between 70 and 120 percent of area median income, much higher than the income levels served by the first-time homebuyer programs. However, these new developments do provide additional benefits not provided by the first-time homebuyer programs. In particular, they increase the City's supply of single-family housing, increase the homeownership rate, and have long term or permanent affordability requirements. Nonetheless,

these additional benefits come only at the expense of a substantial subsidy premium and shallower income targeting.

### **Obstacles to Development of Condominiums**

Most of the new affordable homeownership developments that have been constructed in the last couple of years have consisted of single family detached units or townhomes. This type of housing can be more expensive to build than multi-unit buildings, which because of their density and building type have economies of scale that make them a less expensive type of ownership housing. These could be sold as permanently affordable condominiums.

To date, no developer has proposed to build affordable condominium units. Lawsuits brought by condominium associations against developers and contractors over alleged construction defects have resulted in substantial increases in insurance costs for builders. Although this issue was addressed somewhat in recent State legislation, it is too soon to tell if the legislative changes are sufficient to limit builders' exposure to lawsuits and thereby reduce insurance costs. This is a major issue that affects not only affordable housing, but all housing that involves a condominium form of ownership.

In addition, many developers have found that new homebuyers are unclear about the division of responsibility between the developer and the new buyer for such items as maintenance and replacement of building components. As a result, developers have had to respond to homebuyer issues for many years after a development is completed and sold. Developers have suggested that they would need a higher developer fee to compensate for additional costs generated by these problems. Other solutions would be to require more post-purchase homebuyer counseling and to develop ways to assure that better construction methods and materials are used on the development. Until these concerns and issues have been sufficiently addressed, developers will remain reluctant to attempt to build this type of ownership housing.

### **Other Housing Services**

In addition to the homebuyer and housing development programs, the City operates, supports and participates in a wide range of programs that support homeownership and provide benefits to prospective and existing lower income homeowners.

#### *Rehabilitation Programs*

The City administers, provides and supports several housing services that assist homeownership and maintain and stabilize existing housing stock, eliminate blight and improve neighborhoods. Rehabilitation loan and grant programs administered by the City include:

- Home Maintenance Improvement Program, which provides both amortized and deferred payment loans

- Minor Home Repair Grant Program, which is administered by Alameda County and serves seniors and disabled persons
- Emergency Home Repair Program, which provides loans for home repairs that require immediate attention
- Lead Hazard Control and Paint Grant Program for owner-occupied homes.
- Access Improvement Grant Program, which provides for accessibility modifications for rental and owner-occupied properties

#### *Other Programs for Homeowners*

In addition to programs directly administered by the City, the City also supports organizations that provide a variety of housing and social services for low and moderate income families and communities that include fair housing services, home equity conversion, rental assistance, counseling and services to the disabled population. These organizations include:

- The Center for Independent Living
- Sentinel Housing
- Consumer Credit Counseling Services of the East Bay
- The Home Buyers Assistance Center
- Neighborhood Assistance Corporation of America (NACA)
- The Unity Council
- National Association of Real Estate Brokers – Investment Division (NID)

These organizations provide a range of services. Counseling and education are provided to address a variety of issues, including:

- preparation for homeownership
- locating and purchasing a home
- obtaining home equity and home improvement loans
- refinancing existing loans to take advantage of lower interest rates
- correcting mortgage delinquencies and defaults
- overcoming the problems caused by predatory loans

#### *Counseling*

To enable more low-income households to be successful homeowners, pre-purchase counseling is required for buyers participating in all City homeownership programs. Currently, post-purchase counseling is required for purchasers of new units and recommended for purchasers of existing units.

One of the requirements of the City's first-time homebuyer programs is that homebuyers must be certified as educated and counseled in the home buying process. Homebuyers must attend a community home buying educational workshop where they receive certification as having been

counseled in how to go about purchasing and maintaining a home. The City offers educational workshops facilitated by the CEDA's Residential Lending and Rehabilitation unit, which are held on a bimonthly basis. The workshops are co-facilitated by lenders who have been approved to participate in the Mortgage Assistance Program. City-assisted ownership development projects also require that homebuyers complete some form of homeownership counseling.

The Lao Family Community Development, Inc.'s Multilingual Homeownership Center Program provides services to limited English-speaking first-time homebuyers in the Eastlake, San Antonio, Chinatown and Fruitvale/San Antonio Districts. Other agencies provide similar services to first-time homebuyers and to buyers of newly constructed homeownership units.

### *Marketing*

Housing programs are marketed through the Housing and Community Development Division (HCD) website, and through the distribution of printed brochures and informational materials. The website addresses frequently asked questions and provides detailed information regarding programs available to the community. Materials are also distributed through local partners such as lenders, real estate agents and housing counseling agencies; at local community fairs; and at the Annual Homeownership Education Fair hosted by the City of Oakland. Although local community fairs reach a smaller audience, the City is able to distribute information to a specific target population. The Annual Homeownership Education Fair targets a larger audience and provides the City the opportunity not only to distribute materials but also to assist the community in accessing additional resources necessary to achieve homeownership in this market. Information is provided to the community in English, Chinese, Spanish, and Vietnamese.

Additional marketing opportunities have been provided through media events by local partners including Congresswoman Barbara Lee's Town Hall Meeting, Fannie Mae presentations on Soul Beat, etc.

Developers using the AHDP, CLT and V-HARP programs are required to comply with the City's Affirmative Fair Marketing requirements. In addition, the developer is required to comply with a marketing plan that must first be reviewed and approved by the City. If needed, staff will participate in outreach presentations with the developer to explain the City/Agency's requirements on applicant eligibility requirements and resale restrictions.

### *Education*

Education and financial literacy is the foundation for homeownership. It is especially essential in this high cost market where one small issue can destroy the ability to buy. Financial literacy is provided through several sources including many of those listed above. We are also in discussion with Washington Mutual to provide personal finance classes.

## **SUSTAINABLE OPPORTUNITIES**

Housing projects impact sustainability in several ways.

### Economic:

- Expands the affordable housing inventory for families, seniors, and disabled people in Oakland.
- Generates construction and professional services contracts.

### Environmental:

- Supports urban infill and transit-oriented workforce, senior, and disabled housing to reduce dependency on automobiles and further reduce any adverse environmental impacts of development.
- Provides highly energy-efficient buildings, many of which exceed the requirements of Title 24 by at least 15%.
- Construction contractors, property owners and housing developers are encouraged to use recycled-content building materials and products manufactured in ways that are not harmful to the environment energy-conserving building designs and appliances, and water conserving fixtures and landscaping.

### Social Equity:

- Improves the landscape and climate of Oakland's neighborhoods by replacing underused and sometimes blighted buildings and lots with new homes and residents.
- Provides social services, including technology centers for residents, in rental developments.
- Enables low-income families to become homeowners.

## **DISABILITY AND SENIOR CITIZEN ACCESS**

Homeownership has a positive impact on the quality of life for families and residents and the neighborhood through pride of ownership.

All housing development projects that receive federal funds are required to construct and set aside units to be occupied by persons with disabilities as required by Federal Section 504 regulations. This means at least 5 percent of newly constructed units will be available to persons with disabilities. An additional 2 percent of newly constructed units will be available to persons with visual or hearing disabilities. The State's Title 24 requirements and the Americans with Disabilities Act require that persons with disabilities in design and construction of housing for rental units and some ownership types be considered. Developers are required to market housing units to the disabled community and present their strategy as part of their Affirmative Fair Marketing Plan.

## RECOMMENDATIONS AND RATIONALE

Market forces set clear limits on what the City can hope to achieve with its housing programs. This is not to say that the City's housing programs make no difference. Over the past 20 years the City has financed the development of more than 3,000 units of affordable rental and ownership housing, and has assisted more than 2,000 lower income families to purchase homes at an affordable price. Many of the City's housing developments have acted as catalysts for neighborhood development, and have resulted in increased construction and permanent employment. But these efforts have not fundamentally changed the underlying structural dynamics of the housing market, and are unlikely to do so without significant changes in regional development patterns that are beyond the City's ability to control. Within these constraints, the City still must make strategic choices about the most efficient and effective use of its limited resources.

The City's mortgage and downpayment assistance programs for first-time homebuyers are far more cost-effective than development of new housing, where the objective is to expand homeownership opportunities for low and moderate income households. When the objective is to increase homeownership rates and revitalize neighborhoods in particular areas of the City, the development programs are more effective.

This report has also noted some of the difficulties that have been encountered in fully utilizing the first-time homebuyer programs, particularly as market conditions change.

Staff is therefore recommending the following changes to existing programs and funding allocations to better align with these objectives:

1. The division of City funds equally between homeownership and rental activities should be continued. As is currently the case, this policy would apply only to HOME and Redevelopment Agency funds. Funding of rehabilitation loan programs for low income homeowners, and housing services programs for renters and owners, would continue under the Community Development Block Grant (CDBG) program independent of the 50/50 split of funds.
2. The Mortgage Assistance Program would continue to receive an annual allocation of \$2.5 million, with the possibility of increases mid-year as described in item 4 below.
3. Funds for development of new homeownership units under the City's affordable housing NOFA process would be limited to those projects that increase homeownership in census tracts that have ownership rates substantially below the citywide average of 42 percent, or are part of a comprehensive neighborhood revitalization project such as the Oakland Housing Authority's HOPE VI projects.
4. If the NOFA process does not result in funding of sufficient ownership projects to achieve a 50/50 split (when combined with the funding for the MAP program), the

City Council could then determine whether to (a) make additional funds available for the MAP program, (b) hold the remaining NOFA funds over until the next NOFA funding round, or (c) use the funds for additional rental projects that had high scores in the NOFA process.

5. To ensure that the first-time homebuyer programs are fully utilized, the City Council may wish to expand eligibility for the PSE-DAP program to include all first-time homebuyers, not just teachers and public safety employees. The expanded eligibility could include households with incomes up to 120 percent of area median income, or could be limited to 100 percent of median in order to better target those households with the greatest needs.
6. Should market trends continue, or interest rates rise, the MAP program will be less effective at reaching households with incomes significantly below 80 percent of median income. The City Council may wish to consider establishing a two-tier structure that provides higher loan amounts for households with lower incomes.

These proposals may have implications for other City objectives:

1. Because the MAP program is no longer consistent with the regulations for the HOME program, only Redevelopment Agency funds can be used for this program. This would require that housing development activities be funded primarily with HOME funds. This poses particular problems for rental housing developments, because HOME funds are considered to be federal funds and reduce the amount of Low Income Housing Tax Credits that can be leveraged, thereby increasing the amount of subsidy required from the City. HOME funds also have additional regulatory restrictions that make them less flexible than Redevelopment Agency funds.
2. If the City shifts funding from development of new housing to programs that assist households to purchase existing homes, it will be more difficult for the City to meet its goals for production of affordable housing as set in the Regional Housing Needs Analysis for the Housing Element (the "fair share" allocations).

These issues should be carefully considered. If the City Council accepts these recommendations, annual reassessments of the effectiveness of these changes would ensure that the City remains on track to achieve all its housing goals.

**ACTION REQUESTED OF THE CITY COUNCIL**

Adopt the recommendations listed above and direct staff to implement the necessary program changes.

Respectfully submitted,

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**WILLIAM E. CLAGGETT**

Executive Director

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APPROVED AND FORWARDED TO  
THE COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

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**OFFICE OF THE CITY MANAGER**

Attachments

## ATTACHMENT A

### ***CITY OF OAKLAND HOUSING POLICY (Adopted in 1993)***

*The City of Oakland is committed to making decent affordable housing available to all of its citizens. While it is recognized that most state and federal housing programs are targeted primarily to very low-income persons, it is the intention of the City of Oakland to include persons with other income levels in its housing programs and developments as well. The following general policies have been adopted as a framework for new housing programs and projects:*

- 1) The City of Oakland is committed to improving neighborhoods by providing quality housing that is affordable, attractive and well designed and will become an integral part of the surrounding neighborhoods by focusing community pride and integrating other factors that enhance neighborhood livability, such as improved streetscapes and programs that improve safety and education.
- 2) The City of Oakland will encourage homeownership to the fullest extent feasible while also continuing to encourage the development of a variety of types of housing opportunities for persons not able to attain, or not interested in attaining, traditional homeownership, including rental, work/live housing, cooperative homeownership, and mutual housing.
- 3) In the use of City and/or Redevelopment Agency money and/or regulatory authority, it is the City's policy to avoid concentration of housing for any single income group in a neighborhood, distributed equitably among all Council Districts.
- 4) The City of Oakland will apply for all available state and federal funding sources that will further the availability of decent affordable housing for citizens and will lobby for increased state and federal assistance to ease Oakland's affordable housing crisis.
- 5) The City of Oakland is committed to working to maximize access to private capital investments in housing.
- 6) The City of Oakland is committed to encouraging all jurisdictions in the region to take actions to provide their "fair Share" of regional housing needs for all income groups, especially lower income persons.
- 7) The City of Oakland is committed to addressing effectively the many issues of homelessness, including the provision, to the fullest extent feasible, of emergency shelter and transitional housing for homeless persons and permanent housing which is service-enriched for formerly homeless persons.
- 8) The City of Oakland is committed to simplifying and expediting housing development processes.
- 9) The City of Oakland will dedicate available resources to eradicate and prevent blighting conditions and maintain standards to safeguard and preserve the neighborhoods through code compliance.
- 10) The City of Oakland will implement programs that result in the preservation and enhancement of existing housing resources, for livability, affordability and historical continuity.

## ATTACHMENT B

This attachment contains more detailed information on the City's programs that promote ownership housing.

### Programs to Assist Homebuyers:

- Mortgage Assistance Program (MAP)
- Public Safety Employee & O. U. S. D. Teachers Down Payment Assistance Program (DAP)
- Teacher Mortgage Assistance Program
- Oakland Homeownership Assistance Alliance (OHAA)
- Section 8 Homeownership Program

### Programs to Assist the Construction and Major Rehabilitation of Ownership Housing:

- Affordable Homeownership Development Program
- Community Land Trust
- Vacant Housing Acquisition and Rehabilitation Program (V-HARP) – *Can be used for both homeownership and rental projects.*

## First Time Homebuyers Mortgage Assistance Program (MAP)

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**Purpose** The First Time Homebuyers Mortgage Assistance Program (MAP) is a City of Oakland program operating jointly with participating lenders to assist low-income, first time homebuyers to purchase homes in the City of Oakland.

**Status** Taking applications now. Application is made through [participating lender](#).

**Maximum Amount** Loan of \$50,000     **Minimum Amount** N/A

### REQUIREMENTS

**Eligible Applicants** Borrowers must be [First Time Homebuyers](#)

**Location** Property must be located in one of the seven Community Development Districts. See the [District Maps](#) in the Community Development section of this site.

**Eligible Properties** Any single family dwelling, including condos, town homes

**Income** Applicant's annual household income cannot exceed [80% of the Area Median Income](#). Income of all household members 18 years or older must be considered (includes house/roommates).

**Occupancy** Single-Family Dwelling  
Owner-Occupied only

**Eligible Uses** Primary Residence

**Other Requirements** None

### LOAN / GRANT DETAILS

**Interest Rate:** 3.0% simple  
**Payments/ Term** No Monthly Payments

Due in 30 Years  
OR  
when the borrower sells, transfers, refinances the property (under certain conditions) or converts the home to rental property.

**Prepayment Penalty** None

**Security** Deed of Trust

## Public Safety Employee & O. U. S. D. Teachers Down Payment Assistance Program (DAP)

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**Purpose** Loan funds for down payment and/or closing costs for the purchase of owner occupied, single family homes in the City of Oakland. The Program is designed to offer an incentive to Oakland Police and Fire Services Sworn Employees and current full-time Oakland Unified School District Teachers to purchase homes in the city in which they work.

**Status** Taking applications now.  
**Maximum Amount** Loan of \$10,000    **Minimum Amount** \$5,000

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### REQUIREMENTS

**Eligible Applicants** Borrowers must be [First Time Homebuyers\\*](#)

**Location** Citywide

**Eligible Properties** Any single family dwelling.

**Income** Applicant's annual household income cannot exceed [120% of the Area Median Income\\*](#). Income of all household members 18 years or older must be considered (includes house/roommates).

**Occupancy** Single-Family Dwelling  
Owner-Occupied only

**Eligible Uses** Loan funds must be used towards the down payment and/or closing costs.

**Other Requirements** None

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### LOAN / GRANT DETAILS

**Interest Rate:** 6.0%

**Payments/Term** 120 Months (10 years)  
Final payment due at end of ten-year term  
Payments and Interest deferred for the first 60 months (five years)  
Monthly payments of principal and interest begin in the 61st month  
Loan must be paid in full upon the sale or transfer of title of property

**Prepayment Penalty** None.

**Security** Deed of Trust

## Teacher Mortgage Assistance Program

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The City applied for and received \$11,500,000 in Qualified Mortgage Bonds (Extra Credit Teacher Home Mortgage Program) to assist Oakland Unified School District teachers to purchase housing in Oakland. These funds have been assigned to the California Housing and Finance Agency and Alameda County Housing and Community Development Department to provide teachers with different financing options. Both programs can also be used with the City's \$10,000 Down Payment Assistance Program for Public Safety Employees and OUSD Teachers. The first option, assigned to the California Housing Finance Agency (CHFA), offers applicants a below market rate loan plus a deferred second loan of \$7,500 for down payment assistance. The second option, assigned to the Alameda County Mortgage Credit Certificate Program, enables recipients to take 20% of their annual mortgage interest payments as a dollar-for-dollar tax credit against their federal income taxes.

The City expected to close 76 loans over the course of two years; only one loan closed during the first year. The high cost housing market has been a large factor in the low success rate of the program. Additionally, teachers are concerned that the houses in their price range are not located in their areas of choice and/or are in poor condition. A survey that we conducted in May 2002 shows that 76% of the teachers that responded do not feel that they have enough money for down payment and closing costs, and 52% believe that their income is too low to qualify for a mortgage.

To address the lack of success of the program and the concerns voiced by the teachers, we have made adjustments to the program. The CHFA program has been enhanced with an additional loan of \$25,000 in deferred down payment assistance which provides for a total of \$42,500 in down payment assistance in combination with the below market rate loan. Extra staff time has been dedicated to the program to increase awareness about the down payment assistance available and to demonstrate teachers' ability to buy. With the new school year we also have a new group of teachers to market. In this second year of the program we already have one loan closed and four in the pipeline.

## **Oakland Homeownership Assistance Alliance**

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The Oakland Homeownership Assistance Alliance (Alliance) was created October 5, 1999 by Resolution No. 75258 C.M.S. The Alliance was created to promote homeownership to improve the City's housing stock and to further economic development for the welfare of its residents. The Purpose of the Alliance is to increase the homeownership rate for low and moderate-income families and to support neighborhood revitalization in Oakland. The goals and objectives are to:

Increase the homeownership rate for low and moderate-income families, minority neighborhoods and other under-served groups in the City of Oakland; support the City's neighborhood revitalization plans by directing creative mortgage credit resources to the targeted areas; improve the quality of the single-family housing stock by encouraging and facilitating rehabilitation and acquisition-rehabilitation lending; provide on-site access to mortgage financing at the best rates and terms available; coordinate access to homebuyer assistance programs offered by the City of Oakland and other agencies; prepare families to obtain mortgage financing to purchase a home they can afford and keep. The initial members of the Alliance included the City of Oakland, Bank of America, Freddie Mac, Home Buyers Assistance Center (HBAC), Low Income Housing Fund (LIHF) and Local Initiatives Support Corporation (LISC). Others members now include Wells Fargo Home Mortgage Consumer Counseling Service of the East Bay, Oakland Association of Realtors, Multilingual Homeownership Center, the Unity Council, ACORN Housing Corporation (AHC) and the Neighborhood Assistance Corporation of America (NACA).

The Alliance established a five-year plan with the following objectives:

- Over \$1 billion in private mortgage capital provided by Bank of America.
- The Origination of over 10,000 new home mortgages.
- New and creative mortgage programs designed to support the Oakland's targeted neighborhood revitalization plans.
- Easy access to comprehensive homebuyer education and assistance.

## Section 8 Homeownership Program

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The HUD Section 8 Housing Choice voucher program is administered by local public housing agencies and allows low-income families, the elderly and households with disabled family members to rent housing in the private rental market. The program now allows a homeownership option

The Section 8 Homeownership option permits Public Housing Authorities (PHAs) to allow Section 8 voucher holders to use their Housing Assistance Payment (HAP) as a partial mortgage payment for a single-family home, manufactured home, condominium or interest in a cooperative. Borrowers must:

- Be first-time homebuyers
- Have a minimum income of \$10,300
- Be employed for at least one year
- Complete a homebuyer education course.

The HUD rule does not require PHAs to offer the homeownership option, nor does it provide any additional funding to PHAs for administering the program. The programs require the collaboration of several partners such as lenders, housing counseling services, real estate agencies and nonprofit organizations.

The Oakland Housing Authority has been working with local partners to develop their program. They are currently revising the administrative plan that they are required to send to HUD to be able to use the Section 8 vouchers. They hope to submit it to their Board this November or December. The Hope VI will be a target project although some of the units will not be open to the Section 8 program because of the other funding received that is not for Section 8 or public housing.

The Family Self Sufficiency program has graduated 12-15 potential homeowners. Only a few of the graduates were from Oakland, some live in the Valley or other states. The Housing Authority hopes to tie this program in with the Section 8 Homeownership program.

Internally, the Housing Authority is also working to knit several activities together such as the public housing programs, Self Sufficiency, Section 8, Hope VI for more focused. They must also resolve issues around staff time and decide whether to hire someone with expertise on homeownership or contract with a group in the area.

Using the City's MAP program of up to \$50,000, a substantial funding gap still exists to make the program workable.

## Affordable Homeownership Development Program

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<b>Purpose</b>	To provide gap financing for affordable ownership housing development.		
<b>Status</b>	No applications are currently being accepted. The <a href="#">2002 Notice Of Funds Available</a> , through which this program is funded, was issued on September 10, 2002. Applications were due November 18, 2002. Funding commitments will recommended to the City Council and Redevelopment Agency by March 2003.		
<b>Maximum Amount</b>	40% of total residential development costs, as approved by the City.	<b>Minimum Amount</b>	\$1,000 per assisted unit (10 unit minimum)

### REQUIREMENTS

<b>Eligible Applicants</b>	Non-profit and for-profit affordable housing developers, individuals, and general or limited partnerships. Applicants must demonstrate experience and capacity in the development and management of affordable rental or ownership housing, generally shown by the successful development of at least three similar projects.
<b>Location</b>	Citywide.
<b>Eligible Properties</b>	New construction and substantial or moderate rehabilitation (with or without acquisition) of ownership property intended for occupancy by lower income households.
<b>Income</b>	Households with incomes up to 100% of the area median income are eligible. At least 30% of total units must be reserved for households with incomes at or below 80% of the area median income.
<b>Occupancy</b>	City or Agency-assisted units must be occupied by households that fit the income guidelines. Owner-occupied properties cannot be sublet.
<b>Eligible Uses</b>	Eligible uses for City financing include acquisition, demolition, construction, rehabilitation, related soft costs, and other costs as approved by the City. For mixed-income or mixed-use projects, assistance is limited to 40% of the total costs of the affordable housing portion of the project.

Affordable Homeownership Development Program, continued.

**Other Requirements** Homeownership units will remain permanently affordable.  
For-profit applicants must provide equity equal to at least 10% of total project costs.  
Funds are not disbursed without proof of financing commitments for total development cost.  
Substantial other requirements apply, including compliance with local, state, and/or federal environmental, relocation, accessibility, living wage, and lead-paint regulations.

**LOAN / GRANT DETAILS**

**Interest Rate** 3.00% simple interest  
**Payments/ Term** Ownership Projects:  
48 months (4 years)  
3% simple interest  
Payments deferred until loan is due.  
**Prepayment Penalty** None  
**Security** Deed of Trust and Affordability Agreement (Homeownership).

## Community Land Trust

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The Community Land Trust program will provide funding to a non-profit corporation (the Oakland City-wide Community Land Trust) whose mission is to provide permanently affordable homeownership opportunities for low-income households.

Community Land Trusts (CLTs) provide low-income homebuyers with limited returns on their equity in exchange for having received substantial public subsidies. This ensures that the housing remains available as a community resource, preserving affordability and diversity, particularly in neighborhoods that may be experiencing gentrification and displacement of their lower income populations.

Under the Community Land Trust model, a nonprofit, community-based CLT acquires parcels of land and retains them permanently. Improvements (i.e. houses) on this land are sold to individual homeowners, while the land is leased to homeowners for their exclusive use through 99 year ground leases. Households must earn less than 80% of the Area Median Income (AMI) to be eligible buyers. Sales prices are set to allow total housing payments (including mortgage, utilities, maintenance, etc.) to be no more than 30% of targeted household incomes. Homes must be resold to qualified homeowners (earning less than 80% AMI) at affordable prices.

This program was authorized by the Redevelopment Agency on October 22, 2002 and is funded by \$5,000,000 from the 2000 Affordable Housing Bond. The initial funds required for development of the units will be financed by private lenders with a guarantee by the Oakland City-wide Community Land Trust (OCCLT) to purchase the unit at completion, provided that the units meet standards set in the development agreement. The OCCLT then sells the unit at an affordable price to a qualified buyer. Agency subsidies of up to \$100,000 per unit will be used to finance the gap between the development cost of the unit and the amount of the affordable first mortgage. Up to \$250,000 of the program's budget may be used as operating support for the OCCLT in its first crucial years under certain conditions. The remaining \$4,750,000 is expected to produce approximately 50 new, permanently affordable homeownership units. Staff expects this investment to leverage additional funds to help the OCCLT build its portfolio and remain self-sufficient in the long term.

## Vacant Housing Acquisition and Rehabilitation Program (V-HARP)

<b>Purpose</b>	To provide gap financing for the acquisition and rehabilitation of vacant and blighted residential properties of 1 to 20 units in size. Rehabilitated properties can be used to provide affordable rental or homeownership opportunities.
<b>Status</b>	<a href="#">Application packets</a> are available now. Applications will be reviewed on a first come, first serve basis. Completed applications received on or before 5:00 pm on December 15, 2002 will be acted upon by Feb. 15, 2003. There may be a second application period depending on availability of funds after the first application period.
<b>Maximum Amount</b>	Up to \$100,000 per affordable unit not to exceed 40% of the total development cost for the affordable units. <b>Minimum Amount</b> \$50,000 per project

### REQUIREMENTS

<b>Eligible Applicants</b>	Non-profit and for-profit developers, contractors, and current property owners.
<b>Location</b>	Citywide
<b>Eligible Properties</b>	Single family homes and multi-family residential buildings in Oakland with up to 20 units that are blighted and have been vacant for at least six months prior to application. Scattered sites with up to 30 units may be assembled into one "project" to streamline the development process.
<b>Income</b>	Renters of rehabilitated affordable units must have household incomes of no more than 80% of the Area Median Income, as determined by HUD. First time home buyers of rehabilitated affordable units must have household incomes of not more than 120% of Area Median Income, as determined by HUD.
<b>Occupancy</b>	Owner-occupied or Rental

Vacant Housing Acquisition and Rehabilitation, continued.

**Eligible Uses** Projects involving acquisition and rehabilitation, or rehabilitation only, are eligible for this program. Acquisition-only projects are not eligible.

Eligible rehabilitation costs include construction and related soft costs necessary to:

- correct code violations
- repair/replace major systems in danger of failure
- make necessary improvements to ensure long-term manageability and maintenance.

Acquisition costs are eligible provided the sales price does not exceed fair market value.

**Other Requirements** On the affordable units, affordability restrictions for at least 55 years (rental) or 45 years (homeownership) will be required, regardless of prepayment of the loan.

At least 40% of the units per property must be kept affordable for the full term of the affordability restrictions.

Other requirements apply, including compliance with the City's living wage program, affirmative fair marketing requirements, and federal lead-paint hazard abatement requirements. See printed program description for more information.

**LOAN / GRANT DETAILS**

**Interest Rate:** 3% for rental projects  
0% for homeownership units if sold to households earning not more than 80% AMI 10% for homeownership units if sold to households earning between 81% AMI and 120%AMI.

**Payments/ Term** Rental Projects:  
360 months (30 years).  
Payments deferred for life of loan, except that surplus cash flow must be used to make loan payments.

Homeownership Projects:  
24 months (2 years), or at sale of unit, whichever is earlier.

**Prepayment Penalty** None, but affordability restrictions apply regardless of prepayment of loan.

**Security** Deed of Trust and Regulatory Agreement (Rental) or Deed of Trust and Affordability Agreement (Homeownership).