

**DATE:** JULY 13, 1998  
**TO:** PASADENA COMMUNITY DEVELOPMENT COMMISSION  
**FROM:** CYNTHIA J. KURTZ  
ACTING CHIEF EXECUTIVE OFFICER  
**SUBJECT:** APPROVAL OF AGREEMENTS AND ALLOCATION OF FY 1995-1996 AND FY 1996-1997 HOME INVESTMENT PARTNERSHIP ("HOME") FUNDS TO THE BANK OF AMERICA ("BofA") AND PASADENA NEIGHBORHOOD HOUSING SERVICES ("PNHS") FOR IMPLEMENTATION AND ADMINISTRATION OF A HOMEOWNERS' REHABILITATION PROGRAM.

**RECOMMENDATION:**

It is recommended that the Pasadena Community Development Commission ("Commission") take the following actions:

- A. Approve the allocation of \$431,740 FY 1995-1996 and FY 1996-1997 HOME Program Funds to the Bank of America ("BofA", \$351,740) and Pasadena Neighborhood Housing Services ("PNHS", \$80,000).
- B. Approve the terms and provisions of the Operating Agreement ("Agreement") with the BofA for the implementation of the HOME Homeowners Rehabilitation Program which provides interest subsidy funds to buy down the BofA's market interest rate to make up the difference to the bank by subsidizing the interest rate of the borrower.
- C. Approve the terms and provisions of the Subrecipient Agreement ("Sub Agreement") with PNHS to administer the HOME Homeowner Rehabilitation Program on behalf of the Commission.
- D. Authorize the Chief Executive Officer to execute and the Secretary to attest the Agreements between the Commission and the BofA and PNHS in a form satisfactory to the Commission's General Counsel.

**EXECUTIVE SUMMARY:**

If approved, the \$431,740 allocation of FY 1995-1996/1996-1997 HOME Program funds will implement the new HOME Homeowner Rehabilitation Program to provide low-interest rehabilitation loans for homeowners with incomes at or below 80% of median income.

Interest subsidy loans are made by banks at rates of interest below their normal rates. The Commission will make up the difference to the BofA by subsidizing the interest rate of the borrower. The BofA funds of approximately \$1,750,000 (\$25,000 per loan) then leverage the HOME Program funds about 5 to 1 on about seventy (70) loans (\$5,000 average subsidy per loan) versus the approximate number of eighteen (18) loans (\$25,000 average loan amount) if the loans were provided through a direct loan program with market interest rates.

**BACKGROUND:**

On July 19, 1995, the City of Pasadena was notified by the U.S. Department of Housing & Urban Development ("HUD") that, as a Participating Jurisdiction ("PJ"), it had been awarded a total of \$938,000 in fourth-year, FY 1995-1996, HOME Program Funds. On July 16, 1996, the City of Pasadena was also notified that HUD had awarded a total of \$1,013,000 in fifth-year, FY 1996-1997, HOME Program Funds.

In January of 1995, the Commission/City Council approved the allocation of \$215,740 of FY 1995-1996, HOME Program Funds for a Homeowner Rehabilitation Program in compliance with HOME Program regulations. Additionally, in June of 1996, the Commission/City Council approved the allocation of \$216,000 of FY 1996-1997 HOME Program Funds to be added to the Homeowner Rehabilitation Program. The target population are households at or below 80% of the median income for Los Angeles County who are owners of single-family residences whose dwellings are 1) in need of maintenance, 2) have been cited for code violations, and 3) or are experiencing blighting or substandard living conditions.

Pasadena Neighborhood Housing Services, Inc. ("PNHS"), has been a sub-recipient of Community Development Block Grant ("CDBG") funds from the City of Pasadena to administer the Neighborhood Impact Program (homeowner rehabilitation). In an effort to increase the availability of private funding for housing rehabilitation, a consortium of banks was brought together during the summer of 1997 to design and develop a new homeowner rehabilitation program. PNHS hosted monthly meetings where several banks (Family Savings Bank, American Savings Bank, Bank of America, CalFed Bank, World Savings, Sumitomo, and Sanwa Bank) and the City's Housing Division discussed participation in an interest subsidy homeowner rehabilitation program as well as a second trust deed mortgage program.

The BofA and CalFed Bank were the only two banks interested in the homeowner rehabilitation loan program. For the past several months, attorneys for the BofA and CalFed bank have been drafting agreements for review by the Commission's legal counsel. In addition, the Commission's legal counsel drafted a subrecipient agreement between PNHS and the Commission. Unfortunately, CalFed recently notified the Housing Division that it was not able to participate in the HOME Homeowner Rehabilitation Program at this time.

**PROGRAM ADMINISTRATION:**

PNHS will perform all outreach and marketing activities to inform prospective applicants of the availability of the HOME Homeowner Rehabilitation Loan Program. The administration will include purchase of all materials and supplies for the application packaging, telephone, staff salaries, client meetings, information and records maintenance, and staff time necessary to interface with the BofA. The projected cost for the loan application services is \$500 per client. If the loan is approved by the BofA, the loan application cost may be added

to the loan, depending on the client. If the loan is not approved by the BofA, the applicant will not be charged and the loan application fee will be absorbed by PNHS administrative fee. Additionally, the cost for the rehabilitation management services (inspection, cost estimate, progress payment inspections, etc.) will range from \$250 to \$750 per client based on the loan amount. Therefore, the average administrative cost will average about \$1,000 per applicant.

As part of its rehabilitation outreach and promotion, PNHS will solicit participation in the HOME Homeowner Rehabilitation Loan Program from its current waiting list of residents who are being considered for the CDBG Neighborhood Impact Loan Program. All neighborhood associations within the City of Pasadena will also be notified of the availability of the program through Neighborhood Connections. In addition, the Planning Department will notify residents of the availability of the program through the Madison Neighborhood Revitalization Program.

PNHS will forward to the BofA the loan application package. Following receipt of the loan application package, the BofA shall transmit to the Commission and to the applicant a written notice indicating either the BofA's approval or disapproval of the loan application.

The BofA shall determine, on the date an application is received, the required effective interest rate of the loan. The rate will be 2.75% per annum below the Bank FHA Title I Property Improvement Loan interest rate offered to the general public. For each application, the Commission will establish with BofA the range of interest rates to be paid by the borrower. These rates will be 3% for senior citizens, the disabled, and households at or below 50% of median income and 5% for households between 51% to 80% of median income. Based on the foregoing, the BofA shall calculate the amount of the single payment interest subsidy that must be paid by the Commission to the BofA on behalf of the borrower.

The interest subsidy write-downs will average approximately \$5,000 per loan. The amount of subsidy will become deferred third trust deed loans to the borrower. In some instances, the loan may be forgiven depending on the length of time the homeowner resides in and owns the property or if the loan underwriting determines that the financial capacity of the borrower will not permit the repayment of the interest subsidy loan.

The BofA agrees to waive all administrative fees, including the normal 2.5% loan fee and document preparation fee. If a loan application is disapproved, there shall be no costs payable to the BofA. However, if a loan application is approved by BofA, then regardless of whether the loan is funded or not, and regardless of whether the applicant subsequently declines to receive the loan, the Commission shall reimburse the BofA for the expenses attributable for costs incurred for lot book reports, appraisals, credit reports, and flood status reports on approved loans from the proceeds of the HOME Homeowner Rehabilitation Loan Program. The Commission has the option to charge the applicant for such costs incurred.

Interest subsidy loans may be repaid without penalty. If the borrower prepays a loan, BofA shall refund to the Commission the unused prepaid interest subsidy, provided such refund exceeds \$50.

**ADVISORY BOARD ACTION:**

The Pasadena Community Development Committee approved staff's recommendation on Thursday, June 11, 1998.

**HOUSING IMPACT:**

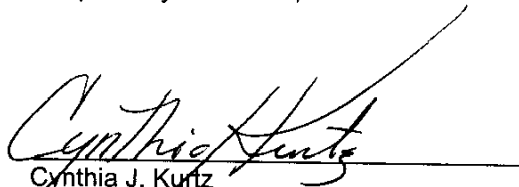
Approval of the HOME Homeowner Rehabilitation Loan Program will provide approximately seventy (70) low-income Pasadena homeowners the opportunity to make needed repairs to their residences at below-market interest rates with the assistance of the Commission buying down their interest rates with the BofA.

The HOME Homeowner Rehabilitation Loan Program is an affordable housing activity consistent with the goals and objectives of the Commission's Affordable Housing Plan 1995-2000, the City of Pasadena General Plan (Housing Element), the Northwest Pasadena Community Plan (Housing Element), and the Community Development Block Grant Consolidated Plan.


**FISCAL IMPACT:**

The \$431,740 HOME Program allocation shall reduce the HOME Homeowner Rehabilitation Account No. 221-684110-52201 by \$431,740 to provide the BofA and PNHS funds to administer the activity for the HOME Homeowner Rehabilitation Loan Program. There is no impact to the General Fund.

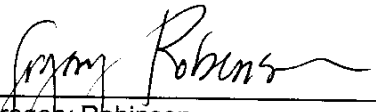
Respectfully submitted,

  
Cynthia J. Kurtz  
Acting Chief Executive Officer

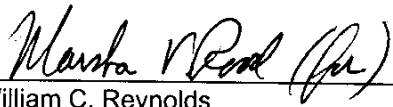
Prepared by,

  
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Stella J. Lucero  
Program Coordinator


Reviewed by:

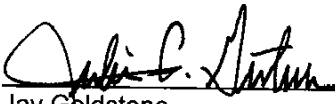
  
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Gregory Robinson  
Housing Administrator

Approved by:

  
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William C. Reynolds  
Director

Concurrence: ~~Revised~~ BY

  
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Michael Estrada  
Assistant General Counsel

  
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for Jay Goldstone  
Director of Finance