DATE: JUNE 1, 1998

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, ACTING CHIEF EXECUTIVE OFFICER

SUBJECT: PARTICIPATION IN LEASE-TO-OWN PROGRAM OF THE CALIFORNIA CITIES HOME OWNERSHIP AUTHORITY

Recommendation:

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

1. Adopt a resolution approving the Joint Powers Agreement Creating the California Cities Home Ownership Authority for Commission participation in the Lease-To-Own Program; and

2. Authorize the Chief Executive Officer of the Commission to execute all documents necessary and in a form acceptable to the Commission's General Counsel to effect participation in the Program and Authority.

Executive Summary

Commission participation in the Lease-To-Own Program would add a new tool to promote the Commission's goal of increasing home ownership throughout the city. Under the Program, a household with sufficient income to qualify for a conventional mortgage, but without cash savings for down payment and closing costs, would have the opportunity to lease a home with an option to purchase. The participating household would receive a grant under the Program for down payment and closing costs. No indebtedness nor fiscal obligation will be incurred by the Commission as a result of its participation in the Program, except for the possibility of having to pay a pro rata share of an annual audit.

Background

The Pasadena Community Development Commission has the opportunity to become a member of the California Cities Home Ownership Authority ("CCHOA") with the specific purpose of participating in CCHOA's Lease-To-Own Program ("Program"). CCHOA is a joint powers authority comprised of participating cities which would have the power to issue bonds to fund and administer the Program. CCHOA is currently comprised of nine member cities; four others are considering participation.

The Program brings home ownership within the reach of households with incomes sufficient to pay a mortgage, but without the savings required to overcome the barrier of high down payments and closing costs. The Program grants down payment and closing costs to participating households. Households pay a one-time Program participation fee of 2% of the home's value and are offered a grant for down payment and closing costs. Homes are purchased by CCHOA on behalf of the participating families and are offered to them through a lease-to-purchase agreement. During the lease period (typically three years), CCHOA pays the mortgage payment, and, through a professional property management company hired by CCHOA, conducts annual property inspections and insures property maintenance of the homes. At the end of the three-year lease period, the participant takes title to the property and assumes a partially amortized mortgage with 27 years remaining.

Households with up to 140% of median income would be eligible to participate in the Program. This Program would serve a broader range of home buyers than under the Commission's existing home ownership assistance programs since it is neither restricted to first-time home buyers nor limited necessarily to lower and moderate income households. For example, the Lease-To-Own Program would be able to assist a 3-person household with an income of $64,600, compared to $55,400 under the Commission's Homeownership Opportunities Program.

There is virtually no cost for the Commission to join CCHOA. CCHOA will not have the power to financially obligate the Commission. Tax-exempt bond debt issued by CCHOA will be CCHOA debt only, and neither a debt nor an obligation of the Commission or any other participating city. The initial bond issue is expected to be between $45,000,000 and $60,000,000. CCHOA administrative costs for the Program will be financed with bond proceeds, lender commitment fees, and participation fees paid by households benefiting from the Program. However, one fiscal obligation which may be shared by all members of the joint participating authority would be to pay a pro rata portion of the cost of an annual audit (approximately $10,000) by certified public accountants in the unlikely event that CCHOA does not itself have funds to pay the auditors.

The Program has been designed to produce surplus revenues after all bonds and expenses have been paid (in fact, Standard and Poor's Corporation requires surpluses as a condition of providing a bond rating). CCHOA pays debt service with Program revenues earned by purchasing homes with bond proceeds and subsequently offering the homes to participating families through a lease-to-own purchase arrangement (see below for a summary of the Program's financial structure). CCHOA, as the interim owner of the property, follows each city's guidance in pursuing its ownership housing goals. Each city participating in CCHOA will be able to customize the focus and application of the Program within its boundaries. For example, one application that Commission staff will explore is providing home ownership opportunities for very low income families currently receiving rental assistance under the Commission's Family Self-Sufficiency program. Also, the Commission may choose to provide additional financial assistance to Program participants on a case-by-case basis.

The Program has received approval from Federal Home Loan Mortgage Corporation and approval from the Federal Housing Administration is pending. Additionally, the Pasadena-Foothills Association of Realtors is in support of the Program (please see attached letter).

This staff recommendation was considered and approved by the Community Development Committee at its meeting on May 14, 1998.

Program from Homebuyer's Perspective

1. Income-qualified person ("Participant") identifies a home and works with a realtor and a participating lender to purchase the home through the Program. The Participant will be required to attend a home buyer education session.

2. The lender determines that the Participant is financially qualified and the Program administrator inspects the property.

3. CCHOA purchases the property on behalf of the Participant, advancing the entire down payment and closing costs. The Participant pays a one-time participation fee of 2% of the purchase price.

4. Participant enters into a three-year lease agreement and makes monthly lease payments to a lease servicer. The lease payments will be equal to and credited towards the monthly

payments for the house purchase (principal and interest under a conventional 30-year fixed rate mortgage plus some Program administration costs). After the three-year lease period, Participant assumes the mortgage and title to the property.

5. If Participant moves or must be evicted during the lease period, or does not wish to exercise his/her right to convert to homeownership, the 2% participation fee is forfeited.

Summary of Program Financing Structure

1. CCHOA issues Series A and Series B tax-exempt Lease Revenue bonds due in 2003. Proceeds from the Series A bonds would be used to acquire homes on behalf of the participating families. Proceeds from the Series B bonds would be used to provide the participating families with the down payment and closing costs. The difference between the monthly rental rate paid by the families and the monthly cost of bond debt service would retire the Series B bonds.

2. Participating lender (Freddie Mac or FHA-approved) originates the mortgage, advances the downpayment and closing costs, and sells the mortgage to First Nationwide Mortgage, the Master Servicer.

3. Master Servicer reimburses the lender for advancing the downpayment and closing costs.

4. The Master Servicer packages the mortgages and sells them to FNMA or GNMA for mortgage certificates.

5. The Master Servicer sells the mortgage certificates to CCHOA at the Program mortgage rate. At the same time, the CCHOA reimburses the Master Servicer for the downpayment and closing costs it has advanced. The certificates are held by the Program bank trustee until an "AAA" rated forward purchase contract provider purchases the certificates at a predetermined price in the fifth year (2003). The proceeds from this sale would be used to retire the Series A bonds.

Fiscal Impact

The Commission's participation in the CCHOA joint powers authority will have no direct fiscal impact on the Commission's nor the City's budget. However, one fiscal obligation which may be shared by all members of the joint participating authority would be to pay a pro rata portion of the cost of an annual audit (approximately $10,000) by certified public accountants in the unlikely event that CCHOA does not itself have funds to pay the auditors.

Respectfully submitted,

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