

**MOORPARK CITY COUNCIL  
AGENDA REPORT**

**TO:** Honorable City Council

**FROM:** David Moe, Redevelopment Manager *DeMoe*  
**By:** Jessica Sandifer, Management Analyst *JSandifer*

**DATE:** October 3, 2011 (CC Mtg. October 19, 2011)

**SUBJECT:** Consider Authorization of First Trust Deed Loan for 81 First Street First Time Home Buyer Unit

**BACKGROUND**

In 2010, the City completed construction of a single-family home located at 81 First Street. The home was built to be sold as a part of the City's First Time Home Buyer Program (FTHB). Issues with grading on the property have kept the home from being sold under the FTHB program. These issues have been resolved and staff is now ready to move forward with the sale of the unit to an eligible first time home buyer.

**DISCUSSION**

In the past, Wells Fargo Home Loans has provided First Trust Deed mortgages for the FTHB units. Recently, staff received communication from Wells Fargo's underwriting department indicating that the Federal Home Loan Mortgage Corporation ("Freddie Mac") guidelines they use to underwrite the FTHB loans has changed. The change no longer allows additional financing instruments to contain provisions for equity sharing. The Silent Second Deed of Trust and the Resale Refinance Restrictions that the City maintains on the FTHB units contain a requirement for equity sharing upon sale or refinance. As such, Wells Fargo can no longer provide home loans to the FTHB program. Staff is in the process of identifying other lenders that may be able to assist us with provision of loans to the programs.

Given the fact that 81 First Street is ready to be sold and the program does not currently have a lender, staff is proposing that the City take the place of the first mortgage lender for the unit and use the City Affordable Housing Fund as the funding source.

The methodology for accounting for the Affordable Sales Price of the unit is set by Section 50052.5 (b) of the Health and Safety Code and is based on current median income. The affordable sales price for this unit is \$190,300. Staff believes the market value of the unit to be approximately \$360,000 so the City will maintain a second trust deed of \$169,700 to ensure that the unit is encumbered up to market value to discourage extension of additional liens or lines of credit.

When an eligible buyer is identified, the City will sell the unit to the buyer for the same purchase price, plus closing costs. The eligible first time home buyer will have to pay closing costs associated with the buyers side of the transaction and the City will be required to pay closing costs associated with the sellers side of the transaction. At escrow closing, the City will receive the buyer's down payment of \$9,515. The City will record a first mortgage deed of trust in the amount of \$180,785. The term of the loan will be 30-years and the interest rate charged will be 6%. The buyer will be making principal and interest payments of \$1,083. In addition, the City will be requiring an impound account for property taxes and insurance, of approximately \$258 per month. Staff is recommending that the loan be outsourced to a loan servicing company to take care of receiving payments and paying the taxes from the impound account, reporting the loan to the credit agencies, and provide general customer service. The cost for the loan servicing is \$14 per month which will be paid by the borrower. The total mortgage payment will be \$1,355. Any resale would be governed by the same provisions as other FTHB loans.

### **FISCAL IMPACT**

Since the City already owns the unit, no funds need to be allocated for the loan. A lien will be recorded against the property to secure the loan. The closing costs associated with the transaction will be taken from the City's proceeds of the sale, the downpayment of \$9,515, with the remaining proceeds to be transmitted to the City by the escrow company.

The City's Affordable Housing Fund will receive revenue from the principal and interest payments on the loan for \$1,083 per month for the 30-year term.

### **STAFF RECOMMENDATION**

1. Authorize first trust deed mortgage for new first time home buyer as described in this report; and
2. Authorize the City Manager to sign all documents needed for the transactions, subject to final language approval of the City Manager and City Attorney.