RESOLUTION NO. 2008-691

Adopted by the Sacramento City Council

October 21, 2008

APPROVAL OF THE 2009 ONE-YEAR ACTION PLAN, SUBSTANTIAL AMENDMENT TO THE CONSOLIDATED PLAN FOR COMMUNITY DEVELOPMENT BLOCK GRANT, HOME INVESTMENT PARTNERSHIP PROGRAM, AMERICAN DREAM DOWNPAYMENT INITIATIVE; HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS, AND EMERGENCY SHELTER GRANT PROGRAMS; AND AMENDMENT OF THE SHRA BUDGET

BACKGROUND

A. On October 23, 2007, the Sacramento City Council approved the 2008-2012 Consolidated Plan. The Consolidated Plan identifies the City's housing and community development needs and describes a long-term strategy for meeting those needs. In addition, it specifically addresses federally funded housing and community development programs: Community Development Block Grant (CDBG), HOME Investment Partnership Program (HOME), American Dream Downpayment Initiative (ADDI), Housing Opportunities for Persons with AIDS (HOPWA), and Emergency Shelter Grant (ESG) Programs.

B. The Department of Housing and Urban Development (HUD) requires the annual submittal of a One-Year Action Plan describing proposed activities and expenditures for the following year using the goals and priorities of the Consolidated Plan.

C. The Sacramento Housing and Redevelopment Agency (SHRA) annually serves as the designee for the City of Sacramento to administer community development grants originating from HUD.

D. One-time community development grants from HUD which are to be administered directly by the recipient are required to secure environmental clearance; SHRA is designated as the general unit of local government and is authorized to submit a determination of environmental clearance on their behalf.

E. On July 30, 2008, Congress passed and the President signed into law House Resolution 3221, the Housing and Economic Recovery Act of 2008 (HERA), which authorized a one-time $4 billion allocation to be distributed to the states and local governments to mitigate community impacts resulting from foreclosure.

F. HUD released the formula and regulations for the new allocation of CDBG under Neighborhood Stabilization Program (NSP) as prescribed by HERA on September 29, 2008, and a substantial amendment to the Consolidated Plan for NSP funding must be submitted to HUD no later than December 1, 2008.

G. A noticed public hearing soliciting comments on the 2009 One-Year Action Plan was held by the Sacramento Housing and Redevelopment Commission on October 8, 2008 and the Sacramento City Council on October 21, 2008.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. All evidence presented having been duly considered, the findings, including environmental findings regarding this action, as stated in the staff report that accompanies this resolution, are approved.

Section 2. The 2009 One-Year Action Plan, which allocates anticipated CDBG, HOME, ADDI, ESG and HOPWA funds to various programs and projects as set out in Exhibit B to this resolution, is approved.

Section 3. Sacramento Housing and Redevelopment Agency (SHRA) is authorized to amend various years' Action Plans as herein provided.

Section 4. The 2008 One-Year Action Plan is amended to add the projects set out in Exhibit C to this resolution.

Section 5. SHRA is authorized to amend the SHRA Budget to allocate the CDBG funding for programs and projects in accordance with the amendment of the prior years' Action Plan, and to allocate the CDBG, HOME, ADDI, ESG and HOPWA grant funding for programs and projects as set out in the 2009 One-Year Action Plan.

Section 6. SHRA is authorized to submit the amendment of prior years' Action Plan, the 2009 One-Year Action Plan, and a substantial amendment to the Consolidated Plan to HUD, and execute the subsequent grant agreements with HUD.

Section 7. SHRA is authorized to execute agreements and contracts with the appropriate entities to carry out the CDBG to include NSP, HOME, ADDI, ESG and HOPWA grant funds in accordance with the 2009 One-Year Action Plan and substantial amendment to the Consolidated Plan.

Section 8. SHRA is authorized to amend the 2009 CDBG capital reserve, HOME, ADDI, ESG and HOPWA budgets in the event that the final 2009 entitlement is different than what was estimated in the 2009 One-Year Action Plan.

Section 9. SHRA is authorized to execute agreements with HUD for new NSP funding being made available under HERA.

Section 10. SHRA is authorized to execute agreements with appropriate entities to carry out the environmental review for HUD grants.

Section 11. SHRA is authorized to charge and receive a fee of $850 to reimburse Agency staff costs and publication costs for environmental services provided to non-profit entities in connection with HUD grants. The Executive Director is also authorized to receive a deposit to fund all third party costs for providing such services.

Section 12. The City Manager, or designee, is authorized to execute agreements and contracts with the appropriate entities to carry out the activities contained in the 2009 One-Year Action Plan and the substantial amendment to the Consolidated Plan.

Section 13. The County Department of Human Assistance (DHA) Director, or designee, is authorized to receive on behalf of the City, ESG and HOPWA grant funds in accordance with the 2009 One-Year Action Plan, and to execute agreements and contracts with appropriate entities to carry out ESG and HOPWA funded Activities.

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Adopted by the City of Sacramento City Council on October 21, 2008 by the following vote:

Ayes: Councilmembers Fong, Hammond, McCarty, Pannell, Sheedy, Tretheway, Waters, and Mayor Fargo.

Noes: None.

Abstain: None.

Absent: Councilmember Cohn.

Heather Fargo
Mayor Heather Fargo

Attest:

Shirley Concolino
Shirley Concolino, City Clerk

Exhibit A

City of Sacramento
2009 One-Year Action Plan Activities

The U.S. Department of Housing and Urban Development (HUD) requires a consolidated planning process for the federal Community Development Block Grant (CDBG), HOME Investment Partnership Program (HOME), American Dream Downpayment Assistance Initiative (ADDI), Housing Opportunities for Persons with AIDS (HOPWA), and Emergency Shelter Grant (ESG) programs. This process consolidates multiple grant application requirements into a single submission. The concept of the Consolidated Plan was developed to further HUD's statutory goals through a collaborative process involving the community to establish a unified vision for future community development actions.

The Five-Year Consolidated Plan outlines proposed strategies for the expenditure of CDBG, HOME, ADDI, HOPWA, and ESG funds for the period 2008-2012. In general, the mission of the Consolidated Plan is to revitalize selected lower-income neighborhoods and to assist disadvantaged populations by providing adequate public facilities and services, generating affordable housing opportunities, and stimulating economic development.

The One-Year Action Plan is the annual update to the Consolidated Plan. A key component of the One-Year Action Plan is the allocation of funds to proposed activities. This portion of the plan describes activities the jurisdiction will undertake in the coming year. Proposed activities address the priority needs and specific objectives of the 2008-2012 Consolidated Plan, adopted by the Sacramento City Council on October 23, 2007.

In addition, a description of other actions to further the Consolidated Plan strategies is required by HUD as part of the One-Year Action Plan application. These include the Public Housing Authority Administrative Plan, the Citizen Participation Plan, the Continuum of Care Plan and the 10-Year Plan to End Chronic Homelessness. These documents, on file with the Agency Clerk, are incorporated into this staff report and the record by this reference.

The One-Year Action Plan is based on the following estimated revenues:

Revenue Source	Estimated Revenue
CDBG Entitlement	$5,490,094
CDBG Program Income	$184,514
HOME Entitlement	$3,037,244
HOME Program Income	$310,339
ADDI Entitlement	$23,477
ESG Entitlement	$256,193
HOPWA Entitlement	$818,000
HOPWA Reprogramming	$138,979
Total Revenues	**$10,258,840**

The following summarizes proposed activities for 2009. Activities are organized into the following categories; funding totals for each category are indicated.

Funding Category	Proposed Funding
Infrastructure and Public Improvements	$924,888
Housing Development, Preservation and Homeownership	$5,241,252
Public Services	$2,078,932
Commercial Revitalization	$59,349
Grant Planning and Administration	$1,209,122
HUD Loan Repayments	$495,371
CDBG Capital Reserve	$249,926
Total Funding	**$10,258,840**

Background on the City Council District Allocation

The infrastructure and public improvement projects recommended in the 2009 One-Year Action Plan are allocated by City Council District. Each Council District contains low- and moderate-income census tracts, and each Council District allocation is based on the percentage of low- and moderate-income population residing within the District according to the 2000 Census. This allocation method is used to distribute funds for new and continuing capital improvement projects.

The chart below shows the percent of low- and moderate-income population and each Council District's CDBG allocation for the 5-year consolidated plan.

District 1	District 2	District 3	District 4	District 5	District 6	District 8
2000 Percent of Low- and Moderate-Income Population						
10.91%	18.53%	12.13%	12.27%	16.62%	13.20%	16.35%
CDBG Allocation						
$588,000	$1,004,000	$726,000	$648,000	$900,000	$707,000	$877,000

2009 Action Plan Activities

INFRASTRUCTURE AND PUBLIC IMPROVEMENTS

The following are recommended capital improvements of public or community-based facilities and public rights-of-way to be completed within 18 months. These activities, when appropriate, will be coordinated with other City Departments to maximize leveraging with the City's capital improvement plans.

River Gardens/Gardenland Neighborhood Acquisition/Rehabilitation (District 1): Funding for the development and or rehabilitation of a new or existing neighborhood park/community center.	$114,000	CDBG
Ben Ali/Hagginwood Design (District 3): Funding for design work for the Ben Ali and Hagginwood Strategic Neighborhood Action Plans infrastructure and public facilities projects.	$100,000	CDBG
ADA Sidewalk Improvements (District 5): Funding for design and construction of ADA curb ramp improvements in Carleton Heights neighborhood, Colonial Heights neighborhood, and Fruitridge Road from 24th Street to 28th Street.	$348,000	CDBG
Capital Improvement Project Scoping: Funding for early planning, cost estimates, conceptual design, and/ or environmental for CDBG-eligible projects. Location and scope to be determined by an internal process of requests on first-come, first-served basis. CDBG staff to determine eligibility of activity.	$100,000	CDBG
Public Improvements Implementation: Staffing and supportive services for capital improvement projects in 2009.	$262,888	CDBG
Total Infrastructure and Public Improvements	**$924,888**	

HOUSING DEVELOPMENT, PRESERVATION AND HOMEOWNERSHIP

The following are recommended activities to increase, improve, and preserve affordable housing opportunities.

Multi-Family Housing Acquisition and Rehabilitation: Provides loans for the acquisition and rehabilitation of low- and moderate-income multi-family housing.	$39,672	CDBG PI
	$1,366,760	HOME
	$310,339	HOME PI
Multi-Family Housing New Construction: Provides loans for the construction of multi-family housing.	$1,366,760	HOME
American Dream Downpayment Assistance Initiative Program: Provides up to $10,000 in downpayment assistance to income eligible, first-time homebuyers. ADDI funds may also be used for rehabilitation of the home in conjunction with the purchase.	$23,477	**ADDI**
First-Time Homebuyer Assistance Program: Provides up to $40,000 in down payment assistance, closing costs, homeownership education and counseling to income eligible first-time homebuyers as prescribed under the City's housing element.	$200,000	**CDBG**
Emergency Repair Program/Accessibility Grant Program (ERP-A): This program provides grants of up to $5,000 each to very-low income homeowners for emergency health and safety repairs as well as grants to low-income disabled residents for accessibility modifications.	$300,000	CDBG
Home Assistance Repair Program for Seniors (HARPS): Provides technical assistance and referral services to senior homeowners with minor home needs, such as installation of grab bars and plumbing repairs.	$16,625	CDBG
Single-Family Rehabilitation Program: Provides rehabilitation loans up to $50,000 to owner-occupant low- and moderate-income homeowners.	$33,341	CDBG PI
Rebuilding Together: Provides for administrative costs associated with minor home repairs for low- and moderate-income homeowners.	$30,000	CDBG
City Code Enforcement: Provides funds for City code enforcement staff to address boarded and/or vacant and substandard residential properties in low- and moderate-income areas.	$250,000	CDBG

McClellan Heights/Parker Homes Infrastructure Improvements: Provides funds for infrastructure improvements within the McClellan Heights/Parker Homes community. Improvements may include but are not limited to curb, gutter, sidewalks, road resurfacing, and other improvements.	$1,000,000	CDBG
Single-Family Rehabilitation, Emergency Repair/Accessibility Grant Program Delivery: Supportive services for the single-family rehabilitation, emergency repair/accessibility programs in 2009.	$159,112	CDBG
Homeownership Assistance Delivery: Supportive services for the Homeownership Program in 2009.	$145,166	CDBG
Total Housing Development, Preservation, and Homeownership	**$5,241,252**	

COMMERCIAL REVITALIZATION

The following are recommended activities to provide financial and technical assistance to revitalize distressed business communities.

Commercial Revitalization Program: The program operates as a zero-interest loan program along commercial corridors, using CDBG funding for façade improvements and correction of code violations.	$59,349	CDBG PI
Total Commercial Revitalization	**$59,349**	

PUBLIC SERVICES

The following are recommended funding allocations to support human assistance programs. For CDBG, HUD limits funding for public services to 15 percent of the total amount of entitlement and program income.

DHA Emergency Shelter Program: St. John's Shelter provides 100 bed 24 hour shelter for women and children, with a 90 day stay	$256,193	ESG
DHA VOA Detox Facility: Provides shelter, food, tuberculosis screening, medical assessments, detoxification, counseling services, and recovery program to public inebriates and homeless.	$55,000	CDBG
DHA Lutheran Social Services: Provides child care and case management to transitional housing participants through the Building Bridges program. Operated by Lutheran Social Services.	$13,000	CDBG

DHA Senior Nutrition Program: Provides meals to homebound seniors and to non-homebound seniors at over 21 dining sites.	$475,000	CDBG
Prime Time Teen Program: Youth program connecting teens with peers and adults in an environment that fosters safety, relationship building, skill development, youth participation, and community involvement. Program administered by City Neighborhood Services.	$80,000	CDBG
Phoenix Park Resource Center: Provides funds for utility payments, resource center office expenses, and resource center staff.	$25,000	CDBG
Phoenix Park Security Services: Provides funds for security guards, police services, and security improvements.	$65,000	CDBG
InfoLine Sacramento: Provides information which links callers with organizations providing housing, transportation, health, and other services in low- and moderate-income areas.	$57,300	CDBG
Downtown SRO Supportive Services: Provides coordination of health and human services, crisis intervention, independent living skills, drug and alcohol recovery, and community building activities at four downtown hotels: Shasta, Sequoia, YWCA and the Marshall. The service center is located at 719 J Street.	$120,000	CDBG
MAAP: Provides intensive case management to 30 individuals participating in the Shelter Plus Care program and 30 individuals who live in other housing, who may be single or a member of a family, and are formerly homeless persons living with HIV/AIDS	$80,000	HOPWA
Volunteers of America – Open Arms: Operates an emergency shelter for homeless individuals with HIV/AIDS. Individuals are eligible for 90 days of emergency shelter including chemical dependency assessment, meals, transportation and assistance into permanent housing.	$312,189	HOPWA
AIDS Housing Alliance – Colonia San Martin: Provider is acquiring 40 permanent housing units for persons with HIV/AIDS. One unit will be an operations office. In addition to housing, on-site supportive services will also be provided.	$125,389	HOPWA
Center for AIDS Research, Education and Services (CARES) - Emergency Housing Assistance: Provides for short-term emergency housing assistance for persons with HIV/AIDS. Administered by Sacramento County, Department of Human Assistance for Sacramento County. – Supportive Services. Provides case management, assessment, and referral to services and housing, to persons with HIV/AIDS in Sacramento County.	$115,725	HOPWA
Transitional Living and Community Support (TLCS): Provides for permanent supportive housing for persons with HIV/AIDS in a community residence.	$38,000	HOPWA

Placer County – Emergency Housing Assistance: Provides for short-term emergency housing assistance for persons with HIV/AIDS. Administered by Sacramento County, Department of Human Assistance for Placer County.	$43,908	HOPWA
El Dorado County – Emergency Housing Assistance: Provides for short-term emergency housing assistance for persons with HIV/AIDS. Administered by Sacramento County Department of Human Assistance for El Dorado County.	$43,908	HOPWA
CommuniCare Health Clinics--Emergency Housing Assistance: Provides for short-term emergency housing assistance for persons with HIV/AIDS. Administered by Sacramento County, Department of Human Assistance for Yolo County.	$43,320	HOPWA
New Tenant-Based Rental Assistance (TBRA) Program: To be explored and possibly implemented in 2009	$120,000	HOPWA
New Permanent Placement Program: To be explored and possibly implemented in 2009	$10,000	HOPWA
Total Public Services	**$2,078,932**	

HUD LOAN REPAYMENTS

The following debt service payments for HUD Section 108 loans and internal SHRA loans for commercial revitalization, job creation, and infrastructure development.

Section 108 Loan Repayment - Del Paso Nuevo: Annual debt service payment on Section 108 loan funds used to develop infrastructure in a new neighborhood subdivision. If program income is utilized towards the debt service payment then unused funds will be utilized towards project costs. (Payments eight and ten on two separate Section 108 Loans)	$443,219	CDBG
	$52,152	CDBG PI
Total Loan Repayments:	**$495,371**	

GRANT PLANNING AND ADMINISTRATION

The following are related to immediate/intermediate term CDBG program planning, community participation and general program administration. For CDBG, HUD limits funding for planning and administration to 20 percent of the total amount of entitlement and program income. For HOME, the limit is 10 percent.

DHA Administration: Administrative funding for the implementation of CDBG Detox and Senior Nutrition program activities.	$23,500	CDBG
HOPWA Administration: Administrative funding for the implementation of HOPWA program activities.	$24,540	HOPWA
Human Rights/Fair Housing Commission: Provides administrative support for fair housing activities, including investigations, referral mediation, outreach, education, and fair housing audits.	$92,903	CDBG
Sacramento Housing Alliance Fair/Affordable Housing Education: Funds to provide fair housing education and outreach including affordable housing education to various community groups. The public will be educated on fair housing law, and provided information to combat negative stereotypes about affordable housing.	$5,000	CDBG
Mercy Housing Supportive Housing Program: Provides technical assistance to social service organizations developing supportive housing for special needs groups.	$5,000	CDBG
Ten-Year Plan to End Chronic Homelessness: Administrative services for the implementation of the Plan.	$200,000	CDBG
Analysis of Impediment: Provides funding for a consultant to prepare HUD-required planning document for analysis of barriers to affordable housing opportunities	$50,000	CDBG
Green Building Consultant: Provides funding for a consultant to develop strategies, program planning, and implementation of green building practices through SHRA's multifamily lending guidelines, request for proposals, and public housing projects.	$50,000	CDBG
CDBG Planning: Project and program planning for CDBG activities in 2009.	$46,305	CDBG
CDBG Administration: Administrative services for CDBG programs in 2009.	$408,150	CDBG
HOME Program Administration: Administrative services for the implementation of HOME-funded activities in 2006.	$303,724	HOME
Total Grant Planning and Administration:	**$1,209,122**	

CDBG CAPITAL RESERVE

Capital Reserve: Fund reserve account for overruns in capital improvement activities and to fund budgeted activities in 2009 if CDBG entitlement is less than anticipated.	**$249,926**	CDBG

City of Sacramento
Defunded Activities for Various Years' Action Plan

Activities being defunded are those that have been completed, cancelled or funded through alternative sources. Newly funded activities are scheduled to be implemented and completed by December 31, 2010 to comply with federal regulations governing the timely expenditure of funds.

Recommendation	Amount
2007 Residential Hotel Cooling Program – To provide a no interest, deferred payment loan to residential hotels in the Merged Downtown Redevelopment Area to fund non-portable, permanent air cooling system for either a cooled room or cooling facilities for residential hotels that do not provide air-conditioned units. Operators have conveyed that they would prefer to invest resources on new facilities rather than update current ones. Staff recommends funds be reallocated to Capital Reserve.	$600,000
2008 Fruitridge Streetscape Phase II: Streetscape improvements on Fruitridge Road between 65th Street and Power Inn Road. Improvements include: curb, gutter, sidewalk, crosswalk, bus shelter, landscaped planters, landscaped medians, and pavement grind and overlay. Other funding sources are being used for this project and staff recommends funds be reallocated to Capital Reserve.	$156,000
Total	**$756,000**

Exhibit C

City of Sacramento
Amendment to 2008 Action Plan Activities

This report formally amends the 2008 Action Plan by augmenting existing and new projects with CDBG. These activities have been identified as those that need immediate funding. Also, these adjustments will facilitate timely expenditures as required by HUD.

INFRASTRUCTURE AND PUBLIC IMPROVEMENTS		
Recommendation	**Amount**	**Fund**
Manor Swim Club: Project funds will be used for the development of a neighborhood park including: land acquisition, demolition of existing structures, park master plan, design and construction of park improvements, soil remediation, and infrastructure improvements including water, sewer and drainage connections. Located at 6000 61st Street, Sacramento, CA, 95824	$707,000	CDBG
Total	**$707,000**	

Exhibit D

Neighborhood Stabilization Program

1. OVERVIEW

This exhibit describes the U.S. Department of Housing and Urban Development's (HUD) Neighborhood Stabilization Program (NSP) and outlines the proposed neighborhood stabilization strategies and programs for the City and County of Sacramento. Subject to direction from the governing bodies, this description will serve as the basis for the funding applications to be submitted to HUD by December 1, 2008.

Per the HUD regulations, the funding application requires a substantial amendment to the annual Action Plan and the Consolidated Plan. Because the Action Plans of the City and County are on a calendar year, these amendments are occurring at the same time as the Action Plan adoption. Key dates are summarized below.

Approval of Action Plan and Consolidated Plan (CP) Substantial Amendment Program Authorities		October 21
Action Plan Due to HUD		November 15
CP Amendment and NSP Application Due to HUD		December 1
HUD approves Application		December 31
Line of credit available		January 2
Deadline for any revisions to CP necessary for HUD approval		February 1

In addition, because of the truncated public process, SHRA intends to meet with the following groups in October to share this plan: Sacramento City/County Foreclosure Task Force, Sacramento Housing Alliance; Sacramento Association of Realtors; Sacramento Regional Partnership; Redevelopment Advisory Committees for Oak Park, North Sacramento, and Del Paso Heights, the North Highlands Vision Taskforce, and the cities of Galt and Folsom.

2. FEDERAL PROGRAM PARAMETERS

As part of the Housing and Economic Recovery Act of 2008 ("HERA"), Congress appropriated $3.9 billion in Community Development Block Grant ("CDBG") funds to state and local governments to purchase abandoned and foreclosed homes and residential properties. These funds create the Neighborhood Stabilization Program ("NSP"), which is intended to stabilize neighborhoods that are hardest hit by the foreclosure crisis. The U.S. Department of Housing and Urban Development ("HUD") has recently released the funding formula allocations and program rules which are summarized below.

Allocation of funding was based on state and local need measured by number and proportion of homes in foreclosure, subprime loans, and homes in default or delinquency. Each state receives, at a minimum, $19.6 million for use throughout the state. In addition, severely impacted entitlement jurisdictions whose proportional allocation equals at least $2 million receive their own funding. The State of California and jurisdictions within California will be receiving $529.6 million, or sixteen percent, of the federal grant.

In Sacramento County, the unincorporated County, the City of Sacramento and the City of Elk Grove all will receive grants directly from the federal government. The unincorporated County's grant (which can also be used in Galt and Folsom) is $18,605,460 and the City of Sacramento's grant is $13,264,829. Unincorporated Sacramento County is receiving the fourth largest allocation statewide, behind Riverside, Los Angeles and San Bernardino Counties, and the City of Sacramento is receiving the largest grant amount of any City in the State.

NSP funds are specifically focused on recovery and redevelopment of vacant, abandoned foreclosed homes. However, NSP regulations allow flexibility with use of the funds for rehabilitation, redevelopment, demolition, re-construction and land banking of vacant, foreclosed properties. The NSP funding is intended to complement larger redevelopment efforts, and to make a significant impact on distressed areas.

NSP funds have three purposes: to stabilize neighborhoods impacted by foreclosure, to remove significant blight from neighborhoods and to provide housing for low- to moderate-income households. Because of the anticipated condition of the properties, the acquisition price for land or property must be at a discount (at least five percent) below the appraised value. While all funding must be used for programs that house families at or below 120 percent of area median income (AMI), at least 25 percent of the funding must be used for families at or below 50 percent of AMI, and the jurisdiction must impose regulatory restrictions to ensure on-going affordability. Many nuances of these regulations, as well as their interplay with other HUD funding programs, and the short review timeframe, make interpretation difficult. The local strategy for the NSP funds is described in detail below; however, as more is understood about the regulations, proposed programs may be modified and new or alternative activities may be explored.

3. ELEMENTS OF A LOCAL STABILIZATION STRATEGY

Sacramento's neighborhoods have experienced many of the negative impacts of foreclosures: increased crimes due to abandoned and vacant properties, blighting influences as properties begin to deteriorate, and increased stresses on families and children.[1] NSP funding, however, presents an opportunity to return stability to some of Sacramento's hardest hit neighborhoods. Sacramento's local strategy responds to HUD's challenge to "carry out its NSP activities in the context of a comprehensive plan for the community's vision of how it can make its neighborhoods not only more stable, but also more sustainable, competitive, and integrated into the overall metropolitan fabric, including access to transit, affordable housing." While SHRA is proposing several programs as described below, all share similar goals, strategic elements and challenges

Sacramento's programs strive to achieve three goals:

- Return vacant foreclosed or abandoned residential properties to occupancy as quickly as possible;
- Revitalize neighborhoods through strategic redevelopment, rehabilitation and reuse of vacant properties; and
- Provide affordable homeownership and improved affordable rental opportunities to Sacramento families.

<u>Critical Components of REO Programs</u>

Programs will result in a variety of end uses from ownership to rental housing and may potentially include redeveloped uses, such as parks or commercial development when appropriate. REO programs share several key components critical to their success. Administration of these programs is complex.

- <u>Property acquisition</u> determines a program's success. Considerations include pricing, discount, flow, availability and quality. Acquisition processes must be quick and flexible.

[1] "Seven Ways Foreclosures Impact Communities", NeighborWorks America, August 2008

- Rehabilitation systems should include well defined standards and specifications with contractors as partners. Contingencies must be budgeted to account for vandalism.
- Holding should be of limited duration to manage maintenance costs. While some market conditions permit more speedy recovery, the strategy recognizes that some areas and properties may require landbanking for a future use.
- Exit Strategies are necessary to ensure flow so that programs can operate at scale. For homeownership outcomes, this means strategies to create qualified buyer pools and evaluating ways to enlarge buyer pools, such as with downpayment assistance. Multiple disposition strategies may be required to return units to occupancy.
- Approaches should seek to maximize private financing and external leverage to the greatest degree possible.

Geographic Targeting

Consistent with HUD's rules, the strategy seeks to operate in areas that are most severely impacted by foreclosures and in weaker housing markets that are not as readily able to recover without assistance. Staff believes that geographic targeting will focus activities in a way that achieves a visible impact in the City and County's most affected neighborhoods. Because weaker markets are targeted, home sales will be "naturally" affordable to families well below the 120 percent area median income (AMI) requirement, likely affordable to those in the low-income ranges (below 80% AMI). Rental units will be targeted more deeply to meet the very low-income requirements (below 50 percent AMI), consistent with market rents and incomes in the targeted areas.

Geographic targeting is proposed based on the following criteria, as required by HUD regulations:

1. Foreclosure Rate – Top quartile of census tracts in Sacramento County by residential foreclosure filings per parcel, January 2007 through June 2008. (Source: DataQuick Information Systems)
2. Subprime Loan Percentage – Top quartile of census tracts in Sacramento County by percent of loans that were high cost, 2006. (Source: Home Mortgage Disclosure Act)
3. Likelihood of Increase in Home Foreclosures – Staff believes that it is reasonable to assume that areas with high rates of foreclosure and high rates of subprime lending will continue to have the highest foreclosure rate.

In addition to the areas chosen under the criteria listed above, the area around Lerwick Road in unincorporated Sacramento County will be targeted. While the entire census tract in which this area falls does not qualify under the criteria, the smaller area surrounding Lerwick Road has a high concentration of fourplex units with a very high foreclosure rate and a large number of low-income residents. The area has a history of problems, and the County has committed to revitalizing it. These funds would help to deal with the repercussions of foreclosures in the area and leverage other funds that will continue the revitalization process.

In addition to these criteria, SHRA compared the target areas with areas that were not included and found the following neighborhood characteristics.

- Investor activity is greater in the selected areas than in other areas of the County. While the percentage of homes purchased by investors countywide from August 2007 through July 2008 was 16 percent, the percentage of homes purchased by investors in the target areas was 28.5 percent over the same period.
- Declines in home prices have been steeper in the selected areas. From August 2007 to July 2008, home prices declined 28 percent on average throughout the County. In the target areas, however, the average price decline has been almost 43 percent over the same period.

- The selected areas include the traditionally lower-income areas of the County. According to the 2000 Census, over 58percent of the households in these areas had incomes below 80 percent, and only 53 percent of households owned their homes.

Challenges

Sacramento's programs are designed in recognition of the funding rules and implementation challenges. Key challenges are highlighted and the descriptions below note program features designed to mitigate these issues.

Programs were designed with several key funding constraints in mind.

- All funds must be obligated at the property level within 18 months of the grant agreement. This means programs must be able to operate at scale.
- Acquisitions must be priced below appraised value. A systematic approach is more favorable than a case-by-case approach to this issue.
- Twenty-five percent of the funding must be targeted to households less than 50 percent AMI. Given other program requirements, rental housing is the only viable approach.
- Long-term covenants restrict eligible buyer pools, so flexibility should be sought relative to long-term restrictions.

Similarly, program design recognizes other implementation and administrative challenges

- Buyers are unable to compete directly with investors in today's market;
- Sacramento lacks capacity typically found in community development corporations that are able and interested in single family rehabilitation and ownership efforts. Getting to scale through existing partners is a challenge;
- Traditional affordable housing financing tools are largely unavailable for scattered site or smaller scale homeownership or rental housing;
- To be successful and truly transform neighborhoods, neighborhood stabilization strategies require broader tools and efforts, such as code enforcement, police and infrastructure, in addition to housing rehabilitation;
- As mentioned earlier, with tightened credit, attracting qualified buyers to the targeted areas will not be easy; programs must be proactive in this area; and
- Success requires skilled staff who are able to maintain a sustained and focused attention to these efforts.

4. LOCAL PROGRAMS

Vacant Properties Program

Modeled after the successful 'Boarded and Vacant' and the "Vacant Lot' programs, the Vacant Properties Program is designed to return vacant and blighted homes and properties to owner occupancy. Partnering with local contractors and developers in targeted areas of the City and County of Sacramento, the Program provides a developer an incentive fee to be paid after homes are rehabilitated or constructed and sold to owner-occupants. In limited situations, demolition and reconstruction will be the preferred option.

Because the Program will be geographically targeted in lower-income neighborhoods, it is anticipated that prices will be affordable to families at 80 percent of median income. However, HERA regulations allow maximum sales prices up to 120 percent of median income. In no instance will a home be sold at a price that exceeds the total of acquisition, rehabilitation/construction, and disposition costs.

The program's benefits include using private capacity and minimizing risk of owning properties. However, staff expects the scale to be relatively small.

Block Acquisition/Rehabilitation

High foreclosure rates and REO properties can provide a revitalization and intervention opportunity on a street-by-street basis. Developer-driven acquisition and rehabilitation efforts can substantially improve streets and block groups where foreclosures and vacant properties have magnified existing physical and social blight issues. These areas share many common traits, including:

- Poorly maintained half-plex and duplex homes;
- Prevalence of investor-owned properties;
- Heightened police and code enforcement activity; and
- Declining property values.

Building off the success of past and current efforts at Fruitridge Vista and Lerwick Road in the County and at Phoenix Park in the City, SHRA is crafting a Block Acquisition/Rehabiltation Program to help address some of the blighted conditions in specific targeted areas. SHRA will seek partnerships with private developers willing to acquire, rehabilitate (or demolish and rebuild) and maintain as common rental property, units in designated areas. Transformation depends not only on removing the physical blight, but also in stabilizing and securing the neighborhood; therefore, the program must be complemented by additional City and County efforts, including coordination of police and code enforcement efforts to reduce crime and nuisance activities and investment in public infrastructure.

Vacant, foreclosed properties in the following areas are eligible for acquisition and rehabilitation funding through the Neighborhood Transformation Program.

City	County
• Western Avenue • Nedra Court	• Lerwick Road • Norcade Circle
• Coral Gables Court	• Gigi Place and Della Circle
• Franklin Villa "Tip" – Properties in the Morrison Creek HOA, bounded by Shining Star Drive, Franklin Blvd. and Morrison Creek.	• Morningstar Drive • Clover Manor Way

The Program will provide low-interest loans to developers who are able to demonstrate capacity to acquire at least 50 percent of the properties in one of these areas and make a significant investment for change in the area. Funds will be used to provide stable, affordable and safe housing units accompanied by strong property management as a vital component of this Program. Income targeting will contribute to the NSP requirement of 25 percent expenditure to very low income (50% AMI) households. Based on preliminary funding allocation, staff anticipates that up to two areas in each jurisdiction could be funded with NSP funds if a critical mass of foreclosed properties can be acquired.

Property Recycling Entity (PRE)

HUD's NSP contemplates local governments and intermediaries acquiring foreclosed properties for rehabilitation with rental, for sale, demolition, land banking and redevelopment as eligible activities. Other localities such as San Diego, Chicago, Dallas and now Los Angeles have private community-based entities to manage the tasks of acquisition, rehabilitation, rent or sale utilizing private capital from Community Development Financial Institutions (CDFI) and government sources. Sacramento does not have similar entities and there is limited local non profit capacity for this type of activity.

The Property Recycling Entity or PRE envisions an entity (government, affiliate or private) that can quickly acquire foreclosed properties and adjacent parcels, conduct the necessary rehabilitation or demolition, rent or sell and engage in redevelopment. Specifically the PRE could engage in the following functions:

- Acquire, rehabilitate and sell;
- Acquire, demolish and land bank;
- Develop land-banked assets in targeted areas, either separately or as a joint venture;
- Rent acquired assets and sell when market conditions improve

PREs would have a core staff to manage the process and contract as necessary to employ additional expertise and capacity. The PRE would also serve as a backstop or owner of last resort in those situations where other programs may not be applicable or cannot produce the necessary volume to achieve program goals. The PRE could take several forms; each have their own strengths and weaknesses.

- Agency ownership. SHRA, the Housing Authority or the Redevelopment Agency could all acquire foreclosed properties and adjacent parcels in the targeted areas using funds from the NSP. Using the governmental entities with their restrictions could delay the acquisition process and prevent the program from being competitive in acquiring key properties in impacted areas; however, these entities are readily available.
- Intermediary. A non-profit or forprofit entity could acquire, rehab, rent and sell the properties under an agreement with SHRA. A non-profit could also act as a subrecipient under CDBG rules. This structure allows for greater flexibility in acquiring properties; however the intermediary may not be subject to enough control to meet the Program's goals.
- Affiliated non-profit. SHRA could create an affiliated non-profit entity with the express purpose of acquiring assets in the same manner as an intermediary; however, this entity would be more tightly controlled and directed by SHRA. The board of the non-profit could be comprised of local elected representatives or members from the housing community.

<u>Benefits and Advantages</u>

A PRE would provide the foreclosure initiative with the flexibility and speed necessary to encumber the NSP funds within the mandated timeframe. Other programs contemplated in this initiative, while necessary to present a multi-faceted approach, are dependent upon outside vendors reacting to prescribed programs that may not produce enough volume to meet Program objectives. The primary benefits of a PRE include the ability to:

- Flexibly acquire a range of properties in short timeframes;
- Work alone as a nonprofit or joint venture with private entities;
- Quickly acquire properties where a clear exit strategy has not been formalized to take advantage of purchasing opportunities;
- Land bank and assemble properties for future development, waiting for market conditions to improve;
- Strategically acquire assets in coordination with larger revitalization efforts or where significant SHRA, City or County investment exists;
- Attract investment by providing lenders with CRA credits; and
- Serve as a community development corporation for the long term.

<u>Challenges</u>

For purposes of acquiring and rehabilitating properties, relying on existing government entities, using private entities or creating an affiliated non-profit present several challenges that will require a significant amount of start-up time, dedication of resources and expense. Some of these challenges include:

- Using an existing government entity would require the dedication of staff, setting aside funding and obtaining specific approvals for individual property acquisitions. These implementation challenges would impact existing Agency operations by diverting resources away from other activities even with the availability of administrative funding from the NSP.
- An existing intermediary would need to be placed under a program related development agreement for the intended activity. In addition to the Agency's requirements, this agreement would no doubt include a limitation of liability for the intermediary and some guarantee of fees and reimbursement of costs. An intermediary also may not be as responsive to working in targeted areas and may decline certain properties and projects due to liability and profitability concerns.
- A new entity would require a formation of a stand alone non-profit 501(c)(3) entity with an independent board, dedicated staff and funding for operations. The new entity would need capacity to manage the assets in the long term and have sufficient financial resources to hold and maintain the properties.

Volume and Scale

Based on past SHRA experience, historic activity, estimates of acquisition and rehabilitation costs, conservative leverage estimated, and conversations with potential partners, the following represents the best estimate of achievable units and the associated funding. Progress will be closely monitored in each activity and adjustments may be proposed through amendments. It is anticipated that a new non profit PRE would have some initial lag time due to formation and start-up activities.

City Activities

Program*	% Funding	Allocation	Units
Vacant Properties	26%	3,389,901	75
Block Acq/Rehab	30%	3,979,449	36
PRE	44%	5,895,480	76
Total	100%	13,264;829	178

*Administration is included in the program activities

NSP Substantial Amendment Summary Table

Activity Name	Vacant Property Program	Block Acquisition and Rehabilitation	Property Recycling Entity
Activity Type	Acquisition, rehabilitation, and sale of scattered site vacant single family properties to income eligible homebuyers.	Developer partner in tightly targeted areas for acquisition, rehabilitation, and to be operated as rental properties primarily for very low-income households.	Creation of government entity, affiliate organization, or existing nonprofit to proactively take on projects, including acquisition, redevelopment, land banking and rehabilitation; provides flexibility and speed to react to market, both scattered and block; allows for strategic focus for larger revitalization efforts.
National Objective	LMMH	LMMH, LMMA	LMMH, LMMA, LMMC, LMMJ
Projected Start Date	January 2009	January 2009	Formed January 2009, undertake activities by June 2009.
Projected End Date	January 2011	July 2012	December 2013
Responsible Organization	SHRA	SHRA	SHRA
Location Description	Target Areas	Target Areas	Target Areas
Activity Description **▪ tenure** **▪ duration** **- affordability range** **▪ cont. affordability** **▪ discount rate**	▪ Homeownership; ▪ One-time developer fee; ▪ In areas where affordability is presumed to naturally occur; ▪ Individual acquisition discount rate 5% / minimum average portfolio discount 15%.	▪ Rental; ▪ 30 year loan (w/ ability to be forgiven) with up to 4% interest; ▪ Length of affordability will follow HOME requirements dependent upon investment amount per unit; ▪ Individual acquisition discount rate 5% / minimum average portfolio discount 15%.	▪ Homeownership, rental, or any allowed redevelopment use; ▪ Grant or 30 year loan (w/ ability to be forgiven) with up to 4% interest; ▪ Either be in areas where affordability is presumed to naturally occur or will follow HOME per unit cost restrictions; ▪ Individual acquisition discount rate 5% / minimum average portfolio discount 15%.
Total Budget **▪ NSP funds** **▪ leverage**	▪ City – $3,389,901 Leverage – $13,600,000 ▪ County – $3,721,092 Leverage – $14,900,000	▪ City – $3,979,449 Leverage – $2,000,000 ▪ County – $7,442,184 Leverage - $3,700,000	▪ City – $5,895,480 Leverage – $9,000,000 ▪County – $7,442,184 Leverage – $11,000,000
Performance Measure **▪ by income group**	Housing Units ▪ City – 76 units (51-80% AMI) ▪County – 84 units (51-80% AMI)	Housing Units ▪City – 18 units (50% AMI and below); 18 units (51-80% AMI) ▪County – 27 units (50% AMI and below); 40 units (51-80% AMI)	Housing Units ▪ City – 27 units (50% AMI or below); 39 units (51-80% AMI) ▪ County – 33 units (50% AMI or below); 50 units (51-80% AMI)

FORECLOSURE AND SUBPRIME MORTGAGE CRISIS: SACRAMENTO RESPONSE

1. EXECUTIVE SUMMARY

Local communities across the nation are feeling the impacts of the foreclosure crisis, and the Sacramento area is among the hardest hit. In 2007, Sacramento experienced the fifth highest rate of foreclosure among the nation's 100 largest jurisdictions, and foreclosures continue to increase.

Developing a local response to the subprime mortgage and foreclosure crisis impacting the Sacramento area has been a fluid and dynamic process. It has required not only anticipating new foreclosure activity and neighborhood impacts, but understanding market responses and implications in the broader economy. In addition, a complex array of State and Federal regulatory, legislative, and legal responses has evolved. Using the parameters for local action within the foreclosure report presented to the City Council and Board of Supervisors this past April, City and County Departments, community partners and the Sacramento Housing and Redevelopment Agency (SHRA) staff have carried out a number of important actions in 2008 and are now positioned to move forward with the implementation of neighborhood stabilization programs in response to significant momentum at the state and federal levels.

This report provides a comprehensive account of local activities undertaken to date to address the foreclosure crisis, including efforts related to data collection, counseling and code enforcement. In addition, it provides a broad overview of state and federal legislation and of Sacramento's related mobilization efforts, resulting in a strategy for use of federal Neighborhood Stabilization Program funding. This strategy is contained within the Action Plan Staff Report and its attachments,

2. GETTING OUR ARMS AROUND THE ISSUE

SHRA's first responsibility has been to determine the extent of the crisis, the hardest-hit areas and populations, and the effects on the community. This data analysis informs actions and strategies outlined in this report.

Foreclosure Activity in 2007

To date, SHRA has twice (December 2007 and April 2008) provided information to the Board of Supervisors and the City Council on the foreclosure crisis. These reports revealed that:

- Years 2005 and 2006 were peak years for the issuance of subprime and other adjustable rate mortgages were and under the most common two-year reset terms, 2007 and 2008 would see a spike in borrower defaults ;
- 2.2 million subprime home loans had already failed or would end in foreclosure; and
- One out of five subprime mortgages originating during the previous two years would end in foreclosure.
- By end of 2007, California constituted 25 percent of national foreclosure activity and Sacramento had the 5^{th} highest rate of foreclosure
- More than 80 percent of the loans that went into default in 2007 were originated between 2005 and 2006;
- Low-income and minority neighborhoods tended to have higher numbers of foreclosure filings and higher percentages of high-cost loans; and
- Total economic losses for City and County could surpass $7.5 billion.

Continuing Data Collection and Current Trends

To keep up-to-date on this continuously evolving crisis, SHRA has taken on the responsibility of continuously tracking new foreclosure activity. SHRA has released quarterly foreclosure reports which have revealed the following trends:

- Foreclosure Activity Continues To Increase – While 2007 was a record year for foreclosure filings, 2008 has so far been much worse. There were about 17,500 Notice of Default (NOD) filings and about 7,500 Real Estate Owned (REO) filings in Sacramento County in all of 2007. In only the *first half* of 2008, there were about 13,500 NOD filings and almost 8,000 REO filings.
- Sacramento Is Among the Hardest Hit Counties in the State – Sacramento's rate of foreclosures continues to be among the worst in the state, with NOD and REO filings in the second quarter of 2008 equal to 2.2 percent of all housing units in the county. The statewide average for the same period was 1.4 percent.
- Estimates of Numbers of Properties Remaining in REO Vary – It is unfortunately difficult to pin down the number of properties that remain in REO status at any point in time. Information from DataQuick Information Systems estimates that the number of unsold REO properties in Sacramento County increased from about 4,400 in August 2007 to over 14,000 in July 2008. However, information received from the Sacramento Association of Realtors(SAR) indicates that they were tracking only about 2,100 REO properties for sale in mid-August 2008. The SAR also recently reported that the inventory of homes for sale in the area has dropped to just under 4 months, down from over 11 months a year earlier.
- The Majority of Foreclosed Loans Were Originated in 2005 and 2006 – Foreclosures in 2008 continue the trend seen in 2007, with almost 80 percent of foreclosure filings on loans that were originated in 2005 and 2006. A potential second large wave of foreclosure exists with the re-casting of Option ARM loans, loans made mainly to people with good credit. When these loans re-set, payments can rise 40 to 80 percent, leading to high rates of default and foreclosure.
- Low-Income Areas Have the Most Foreclosures – While greenfield growth areas such as Elk Grove and North Natomas certainly have their share of foreclosures, the hardest-hit areas are those with the lowest-income residents, including parts of Oak Park, Meadowview, unincorporated South Sacramento, Del Paso Heights, and North Highlands, among others.
- Sales Prices Have Declined Fastest in Low-Income Areas – Over the past year, sales prices have declined throughout Sacramento County, but low-income areas have seen price declines more precipitous than other areas. For example, average REO sales prices in North Natomas declined by 22 percent from September 2007 to July 2008, and by 23 percent in Elk Grove. However, over the same period, REO sales prices declined by 43 percent in much of North Sacramento and Del Paso Heights, 45 percent in North Highlands, and 43 percent in a large section of South Sacramento.
- Investors Are Purchasing Many Properties in Low-Income Areas – Investors are snapping up properties in lower-income areas of the City and County at a brisk pace. From August 2007 through July 2008, low-income areas generally saw 25 to 50 percent of all home sales going to investors rather than owner-occupants, while the countywide average was 16 percent, and the rate in upper-income areas was much lower.

This ongoing data analysis has helped SHRA identify target areas for the Sacramento's neighborhood stabilization strategies.

3. LOCAL RESPONSE EFFORTS: PREVENTING FORECLOSURES AND MITIGATING COMMUNITY IMPACTS

In the April 2008 report to the City Council and Board of Supervisors SHRA, recommended activities which focused on:

- Preventing additional foreclosures through counseling and education;
- Mitigating community impacts of vacant and foreclosed buildings primarily through enforcement of maintenance standards on vacant properties;
- Influencing federal and state legislative and regulatory responses; and

- Positioning Sacramento to take advantage of new federal and state resources.

Two key partnerships worked in 2008 to coordinate efforts and address the impacts of the subprime mortgage and foreclosure crisis in Sacramento.

- The Sacramento City and County Foreclosure Task Force ("Foreclosure Task Force") was formed in January 2008 to coordinate local foreclosure efforts. Meeting bi-weekly, the group is co-chaired by SHRA and the District Attorney and includes representatives of the following: City and County code enforcement and neighborhood services departments, the City Attorney, County Assessor, City Council and County Board offices, representatives from local State legislative offices, and Congressional offices.
- The Sacramento Regional Partnership is a consortium of local government agencies and officials, non profit organizations, including counseling agencies, and private real estate and banking partners. They meet monthly to coordinate counseling and prevention efforts and annually sponsor the homeownership fair in June.

Counseling and Community Education Efforts

In January 2008, a Freddie Mac/Roper poll found that, despite increased media attention, 57 percent of late-paying borrowers did not know that their lenders may offer alternatives to foreclosure. To improve the odds, in 2008 the Sacramento community undertook a variety of efforts to connect at-risk borrowers with HUD-approved counselors and with their lenders, including:

- Individual and group counseling through in-person, telephone, and webinar sessions offered by Sacramento's five HUD-certified counseling agencies: Acorn Housing, ByDesign Financial Solutions, Senior Legal Hotline/Legal Services of Northern California, Sacramento Home Loan Counseling Center, and Sacramento NeighborWorks Homeownership Center.
- Eight larger community workshops sessions with an estimated 700 attendees were held in areas with concentrations of subprime lending and foreclosure activity. Often sponsored by a local, state or federal official, these workshops brought together homeowners, counselors, lenders and loan servicers, providing an opportunity for both general foreclosure education as well as individual counseling.
- SHRA and the District Attorney have partnered to provide anti-scam postcard handouts and monthly direct mailings to homeowners warning of predatory practices and contact information to seek assistance from the counseling agencies. The first mailing to homeowners occurred on June 27th and was sent to approximately 2,000 homeowners that had received a notice of default over the preceding month. To date, each mailing has consisted of approximately 2,000 letters to homeowners.

Outreach for specific events and to advertise counseling resources have occurred through:

- SHRA's website and its "Preserving Communties" newsletter;
- Direct mail from servicers and lenders;
- Notification to established neighborhood groups and Redevelopment Area Commissions (RACs) by City, County and SHRA staff;
- Free media such as radio and television interviews and public service announcements; and
- Special outreach efforts by elected officials.

<u>Additional Resources for Counseling</u>

While counselor resources continued to be stretched, additional resources were provided in late 2007 and in 2008. The recently enacted federal Housing and Economic Recovery Act of 2008 (HERA, see below) provides $180 million to NeighborWorks America for grants to state housing finance agencies, HUD-approved counseling intermediaries and community-based NeighborWorks organizations. With 15 percent of the funds targeted for low-income and minority homeowners and neighborhoods, and $30 million in grants for legal counseling to assist homeowners in foreclosure, it is estimated that more than 350,000 families nationally will be directly assisted. This augments $180 million in counseling funds provided by Congress to NeighborWorks in December 2007 and $5 million provided by the California Home Ownership Preservation Initiative Program in July for California counseling agencies, including two in Sacramento.

Effect of Mortgage Counseling and Loan Modifications

Homeowners struggling to make mortgage payments did not fare well during the past year, despite Herculean efforts to expand mortgage counseling and the number of free workshops to help families keep their homes. Foreclosures continue to be the most common outcome for homeowners in trouble with their subprime and nontraditional ("Option ARM") loans.

Recent reports from federal and state agencies and nonprofit organizations, all with significantly increased data, show the same picture: while loan servicers overall have increased their outreach to borrowers and their numbers of loan modifications, they are not offering principal reductions – the type of assistance that could create an affordable mortgage in a time of significant deterioration in home values.

As a result, most loan modifications included reduced interest rates for a short or medium time period, or negotiated payment plans that would return the borrower's loan to a performing status. Given that many of the loans were unaffordable when they were made, subject to high fees and penalties and often the result of fraudulent practices, these short term fixes may not create a sustainable payment stream.

The California Reinvestment Coalition's third survey of California mortgage counseling agencies, called "The Continuing Chasm Between Words and Deeds III," reports that the most common reasons for homeowner difficulties included: the mortgages were unaffordable when made, there was a change in family income, or non-English speakers were provided with documents not in their language. The mortgage counselors reported that the mortgage industry as a whole has not stepped up its outreach to borrowers before interest rate resets or increased payments.

The California Department of Corporations, in its July 2008 Mortgage Servicer Survey, reported that the total number of loan workouts had doubled over the last six months. Its data showed that 23 percent of borrowers received a reduced interest rate below their initial rate (5,993 loans), but that only one percent (297 loans) obtained a reduced principal balance without other modifications. (This figure would be higher if the data had included loans accompanied by principal reductions and interest rate adjustments or extension of terms.) During the same month (July 2008), the servicers reported 14,666 foreclosures.

The federal Office of Controller of the Currency and the Office of Thrift Supervision published their "Mortgage Metrics Report" for January – June 2008. Their data included 34.7 million loans nationwide from the nation's largest lenders, representing 60 percent of all loans outstanding. Their data shows increases in defaults and foreclosures as well as in loan modifications. The loan modifications generally include changes in interest rates or amortization schedules and maturity.

The OCC/OTC report also documents the disproportionate number of foreclosures among subprime mortgages. Although subprime mortgages represent nine percent of all mortgages held in the United States, they represent 28 percent of all foreclosures. In other words, subprime loans are more than twice as likely to enter the foreclosure process.

The challenge for the coming months is whether the federal government's intervention in the troubled mortgage securities market will result in more loan workouts creating affordable payment plans for homeowners.

Enforcing Community Standards in Vacant Properties

A primary goal of the ongoing strategy for the City/County Foreclosure Task Force has been to enforce maintenance standards in vacant and foreclosed properties through code enforcement. Both the City and County of Sacramento have Vacant Building Ordinances that help combat nuisance and blight issues that can arise in vacant buildings. While not all vacant buildings are REO or foreclosed properties, the impacts and activity of City and County code officials related to vacant properties is an indicator of changing community standards in the wake of a housing crisis.

City of Sacramento Code Enforcement

The City of Sacramento updated their Vacant Building Ordinance (City Code 8.1) in July of 2007, strengthening an existing ordinance by adding stiffer penalties as a means to encourage faster compliance. The City's ordinance allows City Code Enforcement staff to impose penalties starting 30 days after the building has been found to be a nuisance. Penalties start at $1,000 per violation, up to $5,000 per violation, and can be imposed every 30 days until corrected. Measures of nuisance include landscaping in poor condition; exterior paint and general finishes in poor condition; trash, debris and graffiti; and non-compliance with all building codes and regulations.

Since enacting the updated Ordinance on September 1, 2007, City Code officials have processed 1,157 citations on vacant properties throughout the City, including some cases that were open and rolled over from the previous Ordinance. Highlights of these cases include:

- 40 percent are closed and 60 percent remain open and active;
- 64 percent of the cases were violations substantial enough to require building permit for correction;
- 68 percent of all the cases were in three Council districts: 27 percent each in districts two and five and 14 percent in district eight.

While the Code Department does not track ownership status of the properties cited under the Vacant Building Ordinance, data has shown that some of the areas in the City hit hardest by the foreclosure crisis– Del Paso Heights, Oak Park and Meadowview – fall in these three heavily impacted Council districts.

County of Sacramento Code Enforcement

The County of Sacramento adopted a Vacant Building Ordinance (County Code 16.18.401) in October of 2007, enacting similar provisions to the City's ordinance. Like the City, the County's ordinance allows citation by the County Code Department for blighted vacant properties. The County's measures of blight generally include overgrown or dead vegetation, trash or debris accumulation, graffiti, as well as any violations of building standards in County Code. After a 30 day notice of nuisance, the County ordinance allows imposition of additive fines of $500, $1,000 and $5,000 for every 30 days the nuisance goes uncorrected, up to a maximum of $6,500 after three months.

Over the past five years, the County Code department has seen almost a doubling in the number of complaints, including housing, nuisance, zoning and vehicle complaints. Specific to housing related complaints, since the beginning of 2008:

- The County has opened 315 cases on vacant, open and accessible properties;

- Over half (56 percent) have been in two general areas of the County, North Highlands and the Fruitridge Pocket.

Like the City, the County does not track cases by ownership status; however both of these areas have been identified through data analysis as heavily impacted by the foreclosure crisis

Additional Actions to Maintain Properties

Several other key activities related to mitigating the neighborhood impacts of vacant properties have occurred or are underway.

- On September 10th, the District Attorney and SHRA hosted several lending institutions to discuss opportunities for partnerships between the banks and the City and County. Mutual goals include ensuring properties are adequately maintained and moving properties more quickly to re-occupancy and homeownership. The meeting was comprised of representatives from the following offices: the District Attorney, City Attorney, SHRA, City and County Code Enforcement, County Assessor, State and local elected officials, neighboring cities in Sacramento County, and Wells Fargo Bank, Countrywide/Bank of America, Chase, and HSBC. The discussion focused on roadblocks facing lenders and property managers in maintaining and returning properties to occupancy, local initiatives to revitalize impacted neighborhoods, and legal responsibilities of those who own and manage property.

- One of the ongoing challenges of code enforcement, also recognized in the September 10th lender discussion, has been identifying the owner responsible for maintaining vacant property as it moves through the foreclosure process and before it becomes a nuisance. The Foreclosure Task Force has researched a potential tool for property registration based on ordinances adopted throughout California, including in the cities of Chula Vista, San Jose, San Diego, and Los Angeles. Rather than burdening local city departments with tracking down owners or finding representatives through a variety of means, these ordinances require the lender who has issued a Notice of Default to register the property when it becomes vacant. The unique feature of this approach is that it addresses the period after foreclosure procedures begin but before the property becomes Real Estate Owned (REO). A local property manager, identified both in the registration and in a sign posted on the property, must maintain the property. Fees may also accompany the registration. Localities are also notified when property is transferred. Industry representatives at the meeting indicated the challenges of complying with multiple local ordinances.

- The City and SHRA have been working with the California Conservation Corps to develop a program with the dual purpose of providing constructive activities for youth and a service that can be made available to lenders and their responsible parties to contract for maintenance of foreclosed properties.

- The County of Sacramento District Attorney's office has updated its guidelines for the "Safe Streets Now" neighborhood program and City staff is exploring the feasibility of a pilot program that would educate residents of impacted neighborhoods inundated with poorly maintained foreclosed properties on how to take actions in small claims court as a method to coax lenders to ensure their properties are adequately maintained. A potential award for plaintiffs in small claims cases is $7,000 per member of the household filing the claim.

4. FEDERAL AND STATE RESOURCES COMING INTO PLAY

In recent months, the state and federal government enacted legislation to assist homeowners in, or at risk of, default as well as assist local governments stabilize and redevelop neighborhoods in distress due to vacant foreclosed properties. In addition, reforms were adopted at both levels of government to improve oversight and regulation of the mortgage industry. Key foreclosure provisions are described more fully below.

The most significant of these efforts is the Housing and Economic Recovery Act of 2008 (HERA), widely considered to be the most significant housing legislation in decades. Key foreclosure features include:

- $300 billion for FHA to insure mortgages at risk of default;
- $11 billion in tax-exempt Mortgage Revenue Bonds in 2008 ($1.14 billion to California) to allow local and state housing finance agencies to refinance subprime loans threatened with foreclosure or provide favorable financing for REO purchases by first-time homebuyers;
- $3.9 billion in CDBG funds to enable local governments to acquire foreclosed properties, rehabilitate them and make them available for sale to other homebuyers;
- $180 million in additional funding to HUD certified housing counseling agencies for at-risk borrowers to receive assistance in avoiding foreclosure; and
- $7,000 tax credit for new homebuyers to purchase foreclosed properties.

FHA's Hope for Homeownership

Starting October 1st, FHA will insure $300 billion in new loans under the Hope for Homeowners program. Estimated to help 400,000 owner occupants trapped in mortgages they currently cannot afford, the program will help families who meet the following eligibility:

- Mortgage origination on or before January 1, 2008;
- Mortgage debt-to-income ration at least 31 percent;
- Demonstration that current loan is unaffordable;
- Have not intentionally missed mortgage payments; and
- Do not own second homes.

New loans will be based on the family's ability to repay the mortgage and will have these terms:

- 30-year, fixed rate mortgage, with three percent down;
- Maximum 90 percent loan-to-value ratio;
- No prepayment penalties;
- $550,440 maximum mortgage amount;
- Extinguishment of any subordinate liens; and
- New home appraisals from FHA-approved appraisers.

The success of Hope For Homeowners Program, however, is dependent on voluntary lender participation. Mortgage holders can get a maximum of 90 percent of the *current* value of the home, but this reduction in principal is presumably less than the losses associated with foreclosure. Lenders must also waive penalties or fees and help pay for origination and closing costs.

Increase in Mortgage Revenue Bond Authority

Sacramento residents may also benefit from the state's $1.14 billion increase in Mortgage Revenue Bonds (MRB) available through HERA for refinanced loans or new REO loans for first time home buyers. Administered through the California Debt Limit Allocation Committee (CDLAC), it is anticipated that 50 percent of the funds will be administered by the California Housing Finance Agency (CalHFA) with the remaining funds distributed based upon percent of population. While details have not yet been provided, we believe that CalHFA will offer loans for both refinancing and new purchases and that Sacramento residents will be eligible.

Sacramento County's share based on population is approximately $17 million. The recent Treasury Notice 2008-79 allows for the use of Mortgage Credit Certificates (MCCs), a more viable local tool due to the administrative costs associated with local revenue bond issuance. MCCs provide a 20 percent federal income tax credit to homeowners based on the mortgage interest paid. MCCs allow lenders to use the anticipated tax savings when they calculate the monthly payment a homeowner can afford, in essence providing the homeowner with a higher level of income to allow them the best possible opportunity to afford a sustainable mortgage. Sacramento, applying to CDLAC in October, is adopting its existing new purchase program for REO properties on a countywide basis.

<u>Sacramento Added to State REO Purchase Program</u>

On July 21, 2008, CalHFA announced the establishment of the Community Stabilization Program and allocated $200 million in tax-exempt bond financing for first-time homebuyer purchase of select vacant REO properties at reduced prices from participating lenders. Originally not included in this pilot program, Sacramento County was added in August following meetings SHRA held with CHFA staff.

<u>Preventing Future Abuses: Regulation Z</u>

To stem abusive lending practices, the Fed proposed new rules, known as Regulation Z, which will take effect October 1, 2009. Federal regulators have stated they expect that subprime problems would resurface once markets calm because there would be nothing to prevent the industry from reverting to prior bad practices if prohibitions were not memorialized in a regulation. The new rules will apply to all banks, financial institutions and mortgage brokers. "Under these rules, lenders can make subprime loans only to borrowers who can be reasonably expected to repay them. In doing so, they must assess the borrower's ability to pay the highest scheduled monthly payment in the first seven years of a loan. Previously, lenders considered only the ability to repay low teaser rates that could later rise sharply, as many did. Lenders must also verify a borrower's income to assets, once a common practice that fell by the wayside during the housing boom. Starting in 2010, lenders must also put payments in escrow accounts for property taxes and homeowner's insurance for all first-lien mortgage loans for at least one year.

The new rules also limit the use of prepayment penalties, large fees imposed on borrowers who pay off their original loans early. These fees made it tough for many distressed borrowers to refinance into better terms, and consumer advocates pushed to eliminate them. The Fed did not go that far. Instead, it barred prepayment penalties on subprime, adjustable-rate loans with rates that reset within the first five years of a loan. On fixed rate loans, prepayment penalties are permitted during the first two years of the loan."[2]

<u>State Legislation</u>

At the same time movement began to coalesce at the federal level, the State of California enacted major legislation to address foreclosure, Senate Bill 1137 (Perata), Residential Mortgage Loans: Foreclosure Procedures, which was signed by Governor Schwarzenegger as an emergency act that took effect on July 8th. This law requires a mortgagee, trustee, beneficiary, or authorized agent to wait 30 days after contact is made with the borrower, or 30 days after satisfying due diligence requirements to contact the borrower, as specified, before filing a notice of default (NOD). The purpose for contacting the borrower is to assess the borrower's financial situation and explore options for the borrower to avoid foreclosure. The law requires the borrower to be notified that they can request a subsequent meeting within 14 days and they are to be provided the toll free number to a HUD certified housing counseling agency.

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[2] Dina El Boghdady and Neil Irwin "Fed Rules Aim o Stem Abusive Lending" Washington Post, Tuesday, July 15, 2008.

The law further authorizes a governmental entity to impose civil fines and penalties for failure to maintain a foreclosed property of up to $1,000 per day for a violation. A governmental entity that seeks to impose those fines and penalties must provide notice of the claimed violation and an opportunity to correct the violation at least 14 days prior to imposing the fines and penalties, as well as to allow a hearing for contesting those fines and penalties.

The law also governs the termination of tenancies and generally requires 30 days' notice of the termination thereof, except under specified circumstances. Until January 1, 2013, this law will give a tenant or subtenant in possession of a rental housing unit at the time the property is sold in foreclosure, 60 days to remove himself or herself from the property, as specified. Upon posting a notice of sale: residential property subject to foreclosure sale, twenty days or more after the date of this notice, the specified property may be sold at foreclosure. The new property owner can either give a tenant a new lease or rental agreement or provide 60 day eviction notice.

On September 26th, Governor Schwarzenegger vetoed AB 1830 (Lieu) which would have provided that mortgage brokers have a fiduciary duty to borrowers. In addition, the bill would have imposed tougher restrictions on higher priced loans, prohibiting negatively amortized loans and prepayment penalties and on certain practices such as steering borrowers to higher priced products and payment incentives for such loans.

Legal Interventions

Other notable developments occurring recently relating to the foreclosure and subprime mortgage crisis include a "Grand Jury subpoena, which had been issued in recent weeks and months to Countrywide Financial Corp., New Century Financial Corp. and IndyMac Federal Bank seeking a wide range of information."[3] Those familiar with the investigation stated the subpoenas seek e-mail, phone, and bank records of the three Southern California institutions, which all collapsed as a result of bad loans. "Furthermore, in June, federal officials created a multi-agency taskforce to address mortgage crime, consisting of representatives from the Internal Revenue Service, US Postal Inspection Service, HUD, and the Federal Deposit Insurance Corp. Meanwhile the Federal Bureau of Investigation (FBI) is examining 21 cases related to subprime market collapses targeting securities firms, hedge funds, credit rating agencies, mortgage brokers and lenders. The FBI is working closely with the Securities and Exchange Commission and the Justice Department fraud section to determine if parallel criminal cases should occur. IndyMac's failure alone is expected to cost the Federal Deposit Insurance fund $4 to $8 billion. Federal officials are looking at ways to bring cases that are easier to make, where you get people on tape or on e-mail saying one thing and then misleading the public. The investment vehicles were so complex, showing that people illegally manipulated transactions intentionally would be very difficult otherwise."[4]

The Sacramento FBI office has reported continuing increases in mortgages fraud cases. In 2005 there were 500 cases of mortgage fraud reported by the banks themselves locally. In 2006 there were 1,000 cases; 2007 saw 1,500; and 2008 is anticipated to see 3,000 such cases. These cases do not include other investigations resulting from other sources outside the banks.

4. MOBILIZING FOR NEIGHBORHOOD STABILIZATION

Perhaps most directly significant to local governments is the $3.9 billion in Community Development Block Grant funds authorized in HERA to state and local governments to purchase abandoned and foreclosed homes and residential properties. The Neighborhood Stabilization Program (NSP) is intended to stabilize neighborhoods that are hardest hit by the foreclosure

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[3] Richard B. Schmitt "Federal grand jury investigates Countrywide, IndyMac, New Century" Los Angeles Times, July 23, 2008.
[4] Richard B. Schmitt "Federal grand jury investigates Countrywide, IndyMac, New Century" Los Angeles Times, July 23, 2008.

crisis. In anticipation of federal resources for neighborhood stabilization and prior to knowing either the funding level or program rules, SHRA has undertaken a number of research and collaborative efforts to understand best practices and begin to develop a local REO neighborhood strategy. These efforts are summarized below; the strategy is contained in an attachment to the Staff Report.

- In April of 2008, SHRA began discussions with various lenders holding portfolios of foreclosed homes to explore the potential for bulk sales and other ways to collaborate in reducing the number of REO's. At that time, lenders were solely focused on the individual sale of REO properties in order to maximize the possible return for their banks and its investors and had limited interest in what they perceived as steeply discounted asset sales. As the prospect of increased losses grew, lenders have become more willing to discuss bulk sales in targeted areas that are experiencing significant price declines and slow sales.
- SHRA has also proposed being granted a "first look" at foreclosed homes in our target areas to accelerate the purchase of these REO's and mitigate further neighborhood deterioration. Currently SHRA is defining with these lenders targeted areas and identifying specific foreclosed homes for purchase and intends to develop specific proposals that will lead to transactions with the lenders. The Agency also intends to participate with state and national groups working with these lenders to gain better access to decision makers and further develop disposition programs.
- SHRA hosted ten large California cities and counties on July 25th to further discuss and share best practices. Conversation centered on ways to maximize the local impact of the $10 billion in additional Mortgage Revenue Bond (MRB) cap.
- The Federal Reserve Bank of San Francisco has asked SHRA to join their Stabilizing Communities Working Group to develop strategies for stabilizing local communities affected by foreclosures.
- At the request of HUD, SHRA hosted Assistant Secretary Susan Peppler of the Office of Community Planning and Development at HUD on Thursday, August 21st. During the Assistant Secretary's visit details of how HUD was formulating the regulations for the new NSP foreclosure package were presented and SHRA was able to share its interests.
- SHRA staff have attended relevant conferences, roundtables, and symposiums, including
    - "Stabilizing Communities: Addressing the Negative Impacts of Foreclosure" conference sponsored by the Federal Reserve of San Francisco in July.
    - Stabilization roundtables sponsored by State Department of Housing and Community Development and by the Non-Profit Housing Association of Northern California, both in September.
    - SHRA presentation on REO stabilization strategies at the California Redevelopment Association Legal Symposium in August.