

October 24, 2005

Santa Monica, CA

## INFORMATION ITEM

TO: Mayor and City Council

FROM: City Staff

SUBJECT: Affordable Homeownership Financing and Equity Scenario for 1943-59  
High Place

### Introduction

Staff has been asked for additional information on the affordable homeownership model proposed for the High Place project. Specifically, a scenario of how a family of 4 would qualify for financing, basic assumptions that demonstrate how the affordability income index changing over time would affect the equity and control the increase in the price of a unit, and whether future subsidies from the City will be required.

### Discussion

The first spreadsheet (Exhibit A) indicates that the development is proposed to be affordable to moderate income households. Based upon the current \$65,500 moderate income level and the 5% interest rate that is available from the California Housing Finance Agency, a moderate income household can afford a \$200,000 mortgage. The "State revenue" referred to in the staff report is the BEGIN program (Building Equity and Growth in Neighborhoods).

The next spreadsheet (Exhibit B) shows the anticipated equity based on the change in the affordable income index after ten years of ownership. The assumption is that the

median income will increase at a rate of three percent annually. The mortgage reduction calculations, which also contribute to equity, are illustrated in the final spreadsheet (Exhibit C). Note, traditional market value of housing does not drive the future sales price of a unit, only the combination of increase in the median income and any reductions in principal from payments.

### Summary

The City should not be required to provide additional subsidy in the future. Future sale prices of the units will be established by the then moderate income level.


Attachments:           Exhibit A: Income Required to Qualify for \$200,000 Loan  
                              Exhibit B: Homeowner Equity from Loan Payoff & Appreciation  
                              Exhibit C: Amortization Schedule and Equity Growth

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Exhibit A

**Income Needed to Qualify for \$200,000 Loan**

Loan Amount	\$	200,000	
Interest Rate		5.00%	<a href="#">CalHFA - Interest Rates</a>
Term		30	years
<b>Loan Payment</b>		<b>\$1,074</b>	monthly
<b>Moderate Income</b>	\$	65,500	4-person household
% of Income Used for Housing Cost		30%	
<b>Monthly Income Available for Housing</b>		<b>1,638</b>	
Difference between Monthly Income Available for Housing and Loan Payment	\$	<b>564</b>	
Estimate of HOA fees	\$	(225)	
Estimate of Property Taxes	\$	(210)	
Estimate of Utility Allowance	\$	(100)	
	\$	<b>29</b>	
Loan Payment		\$1,074	
HOA fees	\$	225	
Property Taxes	\$	210	
Utility Allowance	\$	100	
<b>Total Housing Cost for Moderate Income</b>		<b>\$1,609</b>	



## Exhibit B

### Homeowner Equity from Loan Payoff & Appreciation

Moderate Income (2005)	\$	65,500	
<b>Moderate Income (Year 2015)</b>		<b>\$88,027</b>	10 years later, assuming 3% increase per year
% of Income Used for Housing Cost		30%	
<b>Monthly Income Available for Housing</b>		<b>\$2,201</b>	
HOA fees		(\$302)	
Property Taxes		(\$254)	
Utility Allowance		(\$134)	
<b>Monthly Income Available for Loan Payment</b>		<b>\$1,510</b>	
<b>Sales Price in Year 2015 (equal to affordable loan)</b>		<b>\$281,348.47</b>	assumed current interest rate of 5.25%
Principal Balance on Mortgage of Original Owner		\$(162,136.93)	
<b>Equity:</b>	<b>\$</b>	<b>119,212</b>	after 10 years of ownership

**Exhibit C**

**Amortization Schedule and Equity Growth**

Loan Amount	\$	200,000
Interest Rate		5.00%
Payment [annual]	\$	13,010.29

Year	Annual Payment	Interest	Principal	Loan Balance	Equity from Loan Payoff
0				\$ 200,000	
1	\$13,010.29	\$ 10,000.00	\$3,010.29	\$196,989.71	3,010.29
2	\$13,010.29	\$ 9,849.49	\$3,160.80	\$ 193,828.91	6,171.09
3	\$13,010.29	\$ 9,691.45	\$3,318.84	\$ 190,510.07	9,489.93
4	\$13,010.29	\$ 9,525.50	\$3,484.78	\$ 187,025.29	12,974.71
5	\$13,010.29	\$ 9,351.26	\$3,659.02	\$ 183,366.26	16,633.74
6	\$13,010.29	\$ 9,168.31	\$3,841.97	\$ 179,524.29	20,475.71
7	\$13,010.29	\$ 8,976.21	\$4,034.07	\$ 175,490.22	24,509.78
8	\$13,010.29	\$ 8,774.51	\$4,235.78	\$ 171,254.44	28,745.56
9	\$13,010.29	\$ 8,562.72	\$4,447.56	\$ 166,806.88	33,193.12
10	\$13,010.29	\$ 8,340.34	\$4,669.94	\$ 162,136.93	37,863.07
11	\$13,010.29	\$ 8,106.85	\$4,903.44	\$ 157,233.49	42,766.51
12	\$13,010.29	\$ 7,861.67	\$5,148.61	\$ 152,084.88	47,915.12
13	\$13,010.29	\$ 7,604.24	\$5,406.04	\$ 146,678.84	53,321.16
14	\$13,010.29	\$ 7,333.94	\$5,676.35	\$ 141,002.49	58,997.51
15	\$13,010.29	\$ 7,050.12	\$5,960.16	\$ 135,042.33	64,957.67
16	\$13,010.29	\$ 6,752.12	\$6,258.17	\$ 128,784.16	71,215.84
17	\$13,010.29	\$ 6,439.21	\$6,571.08	\$ 122,213.08	77,786.92
18	\$13,010.29	\$ 6,110.65	\$6,899.63	\$ 115,313.45	84,686.55
19	\$13,010.29	\$ 5,765.67	\$7,244.61	\$ 108,068.83	91,931.17
20	\$13,010.29	\$ 5,403.44	\$7,606.85	\$ 100,461.99	99,538.01
21	\$13,010.29	\$ 5,023.10	\$7,987.19	\$ 92,474.80	107,525.20
22	\$13,010.29	\$ 4,623.74	\$8,386.55	\$ 84,088.25	115,911.75
23	\$13,010.29	\$ 4,204.41	\$8,805.87	\$ 75,282.38	124,717.62
24	\$13,010.29	\$ 3,764.12	\$9,246.17	\$ 66,036.21	133,963.79
25	\$13,010.29	\$ 3,301.81	\$9,708.48	\$ 56,327.73	143,672.27
26	\$13,010.29	\$ 2,816.39	\$10,193.90	\$ 46,133.83	153,866.17
27	\$13,010.29	\$ 2,306.69	\$10,703.60	\$ 35,430.24	164,569.76
28	\$13,010.29	\$ 1,771.51	\$11,238.78	\$ 24,191.46	175,808.54
29	\$13,010.29	\$ 1,209.57	\$11,800.71	\$ 12,390.75	187,609.25
30	\$13,010.29	\$ 619.54	\$12,390.75	\$ 0.00	200,000.00