



LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

Board of Supervisors

March 8, 2021

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 First District

Holly J. Mitchell
 Second District

Sheila Kuehl
 Third District

Janice Hahn
 Fourth District

Kathryn Barger
 Fifth District

TO: Supervisor Hilda Solis, Chair
 Supervisor Holly J. Mitchell
 Supervisor Sheila Kuehl
 Supervisor Janice Hahn
 Supervisor Kathryn Barger

FROM: Rafael Carbajal, Director 
 Department of Consumer and Business Affairs

Director

Rafael Carbajal

Chief of Staff

Joel Ayala

**PRESERVING PROPERTY OWNERSHIP DIVERSITY AND EQUITY
 (ITEM NO. 2, DIRECTIVE 2 AND 3, AGENDA OF JANUARY 5, 2021)
 [REPORTS #011160 AND #01161]**

On January 5, 2021, your Board instructed the Director of the Department of Consumer and Business Affairs (DCBA), in close collaboration with the Executive Director of the Los Angeles County Development Authority (LACDA), to report back on opportunities to leverage first-time homeowner programs as a resource for households to build inter-generational wealth and create pathways to homeownership. In the same motion, your Board also directed the Chief Executive Officer (CEO) to report back on potential funding sources to expand the Los Angeles County Mortgage Financial Relief Program (MFR).

The enclosed report serves as a first report back to directive three of your Board's motion on opportunities to leverage first-time homeowner programs to build inter-generational wealth. Specifically, the report highlights:

- Existing County programs aimed at supporting first-time homebuyers;
- Other types of first-time homeowner programs from other jurisdictions and agencies;
- Challenges and opportunity considerations for leveraging first-time homeowner programs in the County; and
- Next steps for developing final recommendations to your Board.

The report also addresses your Board's directive requesting CEO (directive two) to identify potential funding sources to expand the Los Angeles County MFR Program.



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DCBA will work with the LACDA to provide final updates and recommendations to your Board, including opportunities to leverage first-time homeowner programs as a resource to build inter-generational wealth and create pathways to homeownership in April 2021.

Should you have any questions concerning this matter, please contact me or Azusena Favela, Deputy Director, at afavela@dcba.lacounty.gov.

RC:AF:DS
LM:RV:rld

Enclosure

c: Executive Officer, Board of Supervisors
Chief Executive Officer
Los Angeles County Development Authority

– REPORT –
PRESERVING PROPERTY OWNERSHIP DIVERSITY AND EQUITY

I. BACKGROUND

Homeownership has historically been one of the most effective means for wealth building and financial well-being. Yet, according to the Brookings Institute, decades of discrimination in housing and mortgage markets have made the role of homeownership as a wealth-building tool a benefit almost entirely available to white households.¹ Racial disparities in housing wealth account for a substantial share of the wealth divide, creating a cumulative wealth disparity that continues to prevent people of color from obtaining and retaining their own homes and accessing safe, affordable housing.² Segregation, unequal access to credit and homeownership, continuous devaluation of homes in communities of color, and persistent obstruction to accumulate wealth through homeownership have left lingering effects for Black, Indigenous, and People of Color (BIPOC).

Today, these obstacles and housing disparities have worsened with the start of the COVID-19 pandemic. Barriers to homeownership in the form of insufficient income and household wealth to afford down payment and closing costs, inaccessible or poor credit, lack of knowledge about buying a home and sustaining homeownership, regulatory burdens, and housing discrimination remain hindrances for low-to-moderate-income and BIPOC families.³ Such realities necessitate reevaluating the accessibility of and restrictions on homeownership options through traditional channels.

This report serves as a first report-back in response to your Board's motion to explore opportunities to leverage first-time homebuyer programs to build intergenerational wealth and pathways to homeownership. As an initial step, this report provides your Board with initial research findings and key considerations of barriers and potential areas of opportunities for the County toward the development of final recommendations. DCBA will provide your Board with an update on these initiatives, as well as report back on directive one in a separate report in mid-April 2021.

¹ Schuetz, Jenny. "Rethinking homeownership incentives to improve household financial security and shrink the racial wealth gap." Brookings Institute Report, December 9, 2020, <https://www.brookings.edu/research/rethinking-homeownership-incentives-to-improve-household-financial-security-and-shrink-the-racial-wealth-gap/>

² Ibid

³ U.S. Department of Housing and Urban Development. 2010. "[Barriers to Minority Homeownership](#)."

II. EXISTING FIRST-TIME HOMEOWNER PROGRAMS

A. First-Time Homeownership and Rehabilitation Programs

The Los Angeles County Development Authority (LACDA) is the County's lead agency overseeing affordable housing development and preservation programs. Among LACDA's wide-ranging portfolio of services are homeownership programs for first-time low-income homebuyers, as well as home improvement programs aimed to assist homeowners with necessary home repairs. These programs are listed below, including some that are currently inactive.

Homeownership

- **Home Ownership Program (HOP).** The federally funded HOP provides low-income, first-time homebuyers with loans up to \$75,000 or 20 percent of the purchase price for the down payment and closing cost assistance. Each loan is a second Trust Deed loan provided at 0% interest with all payments deferred until sale, transfer, refinancing, no longer owner-occupied, or full repayment of the first mortgage. Eligible properties include single-family homes, townhomes, and condominiums with a maximum purchase price of \$520,000 in the unincorporated areas of Los Angeles County and HOP participating cities.

In the past three years, the HOP has helped first-time homebuyers close escrow on nearly 200 homes in the County.

- **Mortgage Credit Certificate Program (MCC).** The MCC Program offers qualified first-time homebuyers a federal income tax credit. Through this program, qualified first-time homebuyers may convert a portion of their annual mortgage interest into a direct dollar-for-dollar tax credit on their U.S. individual income tax returns. The qualified homebuyer is awarded a tax credit of up to 20 percent of the annual interest paid on the mortgage loan. The remaining 80 percent of the mortgage interest will continue to qualify as an itemized tax deduction. Properties eligible for the MCC Program include single-family homes or condominiums with a maximum purchase price limit of \$679,847 for existing homes, and \$830,924 on new homes in the unincorporated areas of Los Angeles County or one of the MCC participating cities⁴.

LACDA reports approximately 300 first-time homebuyers have been approved for the MCC Program in the last three years. Due to the State's

⁴ List of MCC participating cities: <https://www.lacda.org/for-homeowners/homebuyer/mortgage-credit-certificate-program>

homeless and affordable housing crisis, the California Debt Limit Allocation Committee (CDLAC) has redirected focus on bond authority for the development of new affordable rental housing, matching the State's Housing and Community Development and California Housing Financing Agency (CalHFA) funding priorities toward creating and building affordable housing across the State. As a result, CDLAC did not allocate bonds to the MCC program in 2020 or 2021. LACDA is currently operating the program with its remaining \$25 million award from the 2019 CDLAC allocation.

- **First Home Mortgage Program.** The First Home Mortgage Program helps low-to-moderate first-time homebuyers with annual incomes below 120 percent with down payment and closing cost assistance. The program offers a competitive 30-year fixed rate on loans up to \$510,000 for eligible properties with a maximum purchase price of \$653,833 (existing homes) and \$799,190 (new homes). Loan options offered to borrowers include FHA, VA, USDA/RD, Freddie Mac and/or Fannie Mae. To qualify, borrowers must also have a minimum FICO credit score of 640 and a maximum of 45 percent debt-to-income ratio.

Currently, the First Home Mortgage Program's interest rates range between 3.1 to 3.5 percent, making it less competitive with the average mortgage interest rates currently available. Consequently, the program is under review, with interest rate offerings being reassessed later this year.

- **Affordable Homeownership Opportunities Program (AHOP).** The AHOP provides first-time homebuyers down payment assistance to low- and moderate-income households who purchase a new home in a County-subsidized single-family development. The homebuyer must meet credit underwriting criteria established by the lender providing the first mortgage loan, as well as underwriting by the LACDA. LACDA provides financial assistance via a secondary mortgage, with all payments deferred until sale, transfer, or refinancing. LACDA shares in a percentage of the equity accumulated on the property, depending upon circumstances that exist at the time of subsequent sale, transfer, or refinancing.

Due to limited County resources, AHOP has been dormant since closing out two housing developments in Willowbrook and Whittier in May 2020.

Rehabilitation

- **Residential Sound Insulation Program (RSIP).** The RSIP provides grants to eligible property owners to sound insulate residential homes and rental units from noise caused by aircraft arriving and departing the Los Angeles International Airport. The program is administered within the impacted

communities of Lennox, Del Aire, and Athens. Insulation improvements may include replacement of existing windows and doors with sound-rated doors and windows, as well as installation of air conditioning or ventilation systems, and upgrades of electrical service panels, if required. The value of these repairs range from \$33,000 to \$37,000 per unit, with no cost to the property owner.

- **Single-Family Home Improvement Program (SFHIP).** The SFHIP offers low-income qualified owners of single-family units in unincorporated areas of Los Angeles County located in the First, Second, Fourth, and Fifth Districts with up to \$25,000 for home repairs, including electrical, plumbing, heating, roofing, exterior painting, and elimination of code violations.

Due to the COVID-19 pandemic, both these programs have been suspended since March 2020, with plans for reactivation pending a strategy for safe public engagement.

B. Other Types of First-Time Homeowner Programs

In response to your Board's motion, DCBA also reviewed other types of programs available for first-time homebuyers from other jurisdictions and agencies. While the most common types of programs include specialized loan and grant programs that offer down payment and/or closing cost assistance (i.e., grants, zero-interest loans, and deferred payment loans), there are also other programs worth mentioning in alignment with your Board's motion.

Down payment and closing cost assistance programs with unique program incentives. As previously mentioned, most first-time homebuyer programs provide down payment and/or closing cost assistance. However, some programs offer distinct program incentives. For example, the City of Santa Ana offers a "Santa Ana Student Incentive" for prospective homebuyers with loan forgiveness of up to \$40,000 that graduated from a high school located in Santa Ana and obtained a four-year college degree.⁵ Another program from the City of San Francisco offers specialized down payment loans up to \$375,000 for first responders (including police, fire, sheriff), and San Francisco Unified School District educators with incomes below 200 percent AMI.⁶ The County of Ventura offers down payment assistance to low to moderate-income-qualified first-time homebuyers that allows them to combine different grant programs, including first mortgage financing, CalHome deferred loans (\$25,000), Hope-to-Home grants (\$23,000), WISH forgivable grants (\$22,000), and any other available down

⁵ City of Santa Ana Down Payment Assistance Loan Program: <https://www.santa-ana.org/residents/homeowners-renters/housing-development/down-payment-assistance-loan-program>

⁶ City of San Francisco Down Payment Assistance Loan Program: <https://sfmohcd.org/dalp>

payment assistance.⁷ Lastly, CalHFA just launched its Building Black Wealth initiative in honor of Black History Month.⁸ This program focuses on education, targeted outreach, and connection to housing resources, highlighting the intentionality of directed resources to populations most in need.

Credit-building programs. Credit-building programs help individuals with no or low credit scores to build credit while also teaching financial health and responsibility. These programs include access to microcredit loans (anywhere between \$300-\$2,500) with low fixed rates that, when repaid, increase savings balance and strengthen credit scores. Examples of the credit-building program include Republic Bank Credit Builder Loan and Savings Program,⁹ and the University of Michigan Credit Union's Build My Credit Program.¹⁰

Employer-assisted housing programs. Employer-assisted housing programs provide pathways toward homeownership through various forms of assistance from employers. This may include down payment or closing cost assistance to purchase a home within a city or county limit through grants or loans that are forgiven over time, as long as the recipient remains employed by the employer. Additionally, employer-assisted housing programs may also include public sector support to encourage private employers to offer employer-assisted housing programs to their employees. As an example, local governments could provide a dollar-for-dollar match for employer contributions to employer-assisted programs or offering employer credit against property taxes. As an example, the City of Baltimore's Live Near Your Work program matches employer contributions for participating companies of at least \$1,000 per employee, up to \$2,500 (for a combined total of \$5,000 in assistance for the employee), to be applied to the down payment and closing costs.¹¹

Rent-to-Own programs. A rent-to-own contract generally works as an agreement between the tenant and the homeowner that a portion of the monthly rent is credited toward the future purchase of the property. Under government-run community revitalization programs, rent-to-home options could offer additional pathways to homeownership for families that may otherwise not be able to qualify or afford a home. For example, community organizers in Milwaukee, Wisconsin, worked with financial institutions to convert bank-owned, foreclosed properties into affordable, rent-to-own housing for low-income families called Strong Blocks.¹² This program helps families achieve homeownership within 21 months

⁷ County of Ventura Down Payment Assistance: <https://vccdc.org/lending>

⁸ CalHFA Building Black Wealth initiative: <https://www.calhfa.ca.gov/about/press/press-releases/2021/pr2021-02-09.pdf>

⁹ <https://www.republicbank.com/home/lending/personal/credit-builder>

¹⁰ <https://www.umcu.org/Loans/Build-My-Credit>

¹¹ <https://livebaltimore.com/live-near-your-work/>

¹² <https://www.strongblocks.com/about>

through a rent-to-own contract that includes financial coaching, credit education, and homebuyer counseling programs.

Homeownership Voucher Program. Homeownership voucher is an option within the Housing Choice Voucher (HCV) Program. Under this program, many low-income families are afforded the opportunity to use federal housing assistance that would otherwise be paid to a landlord as rent to purchase and build equity in a home of their own. Like other special housing types, local public housing authorities choose whether to implement the program and allow the use of the homeownership option to voucher recipients. To that end, it is important to note that the Homeownership Voucher Program is not an independent program with separate annual contribution contracts between HUD and the public housing authority, which leaves local public housing authorities interested in homeownership vouchers to use current funds and allocation. This type of program would require determining how many potentially eligible families, including those already part of the HCV program, would be interested in homeownership. The cities of Vacaville, CA,¹³ and Waterloo, IA,¹⁴ are examples of local jurisdictions that have implemented Homeownership Voucher Programs.

III. **CONSIDERATIONS FOR LEVERAGING FIRST-TIME HOMEOWNER PROGRAMS TO BUILD INTERGENERATIONAL WEALTH AND CREATE PATHWAYS TO HOMEOWNERSHIP**

Critical to determining viable recommendations for your Board is to have a better understanding of barriers and to facilitate factors for leveraging existing first-time homeowner programs. Below are challenges, as well as potential opportunities identified for further consideration toward the development of final recommendations.

A. **Challenges**

- **Federal funding requirements significantly shape local homeownership programs.** Over 70 percent of LACDA's funding comes from the U.S. Department of Housing and Urban Development (HUD) to provide subsidized housing, housing development and preservation, community development, and economic development within Los Angeles County. This includes HOP, which is financed with HOME funds provided through HUD. Consequently, program requirements stipulated at the national level offer the following challenges locally:

¹³ <https://www.ci.vacaville.ca.us/departments/housing/housing-assistance/section-8-home-ownership-program>

¹⁴ https://www.cityofwaterlooia.com/departments/housing_authority/down_payment_program.php

- **Required eligibility criteria.** HUD sends announcements regarding program eligibility every year, including household income limits not to exceed 80 percent AMI.
- **Federal program requirements are not reflective of regional markets with high housing costs.** The maximum purchase price using federal regulations is \$480,000 for Los Angeles County but LACDA successfully petitioned HUD to increase the maximum purchase price to \$520,000. In Los Angeles County, where home prices are drastically high and still rising with limited inventory, the median price in November 2020 for a single-family home was \$650,000 and \$530,000 for a condominium.¹⁵ As a result, borrowers may still not be able to compete in today's home market or may be limited to certain areas with less expensive home prices, such as the Antelope Valley.
- **Program sustainability is subject to federal funding.** As with all federally funded programs, the longevity of these programs is reliant on the availability of funds. This reality means some programs, such as AHOP, may be reprioritized to deal with market conditions.

B. Opportunities

As part of the initial research for this report, DCBA has identified preliminary opportunities for consideration to leverage existing programs for the purposes of building intergenerational wealth and creating pathways to homeownership. These options are listed below but will require further analysis regarding their feasibility for the County:

- **Examining investments of and/or partnership opportunities with credit-building programs.** In addition to expanding financial and homeownership preparation programs, it may be beneficial for the County to identify and explore new or existing partnerships with local institutions offering credit-building programs. This could afford the County to assess opportunities to enhance support for first-time homebuyers, such as cross-referrals, promotion of programs, etc.
- **Increased visibility, and promotion of existing assistance programs.** As with many programs, there is an opportunity to examine the effectiveness of current outreach approaches and identify more sophisticated targeting and outreach. This could include social media

¹⁵ <https://la.curbed.com/2018/4/27/17245204/los-angeles-real-estate-buy-house-guide>

marketing and enhanced online visibility to increase awareness of homeownership options.

- **Additional investments and expansion in shared equity programs.** Shared equity programs help keep homes more affordable to qualified households lacking the necessary down payment or income to afford a market-rate home. This may include community land trust homes and limited equity cooperatives. On September 29, 2020, your Board passed a motion to establish a Pilot Community Land Trust Partnership Program to help secure tax-defaulted properties through Chapter 8 Agreement Sales for Community Land Trusts to create long-term affordable housing. A follow up motion on November 10, 2020, further moved to expand the pilot to include non-Chapter 8 properties, with the intention of accessing funding for the acquisition and/or rehabilitation of at least one non-Chapter 8 property in each Supervisorial District.¹⁶ In addition to preserving affordable housing, with continued investments, it may be of interest to the County to explore opportunities to eventually expand this pilot to incorporate a shared equity option to create additional pathways to homeownership.
- **Opportunities to expand first-time homeowner success.** As previously mentioned, LACDA's federally-funded first-time homeowner programs have federally-required eligibility criteria. Prior to LACDA review, an interested applicant must first meet all additional requirements set by the outside lender, including credit criteria. As identified by Urban Institute's 2018 report, "Barriers to Accessing Homeownership – Down Payment, Credit and Affordability," these requirements are a frequent barrier for many applicants who may have compromised credit ratings due to extenuating circumstances or may not be aware of available programs that can help build their credit rating. These applicants could be loan-worthy and would otherwise meet the program criteria that LACDA reviews. In these situations, mortgage credit measures that should be reexamined include the credit score and the debt-to-income ratio, but this would require leniency by lenders to help potential homebuyers overcome these isolated financial mishaps.

Making comprehensive credit counseling a required component of programs such as HUD's Family Self-Sufficiency Program (FSS), would greatly enhance families' opportunity to graduate into homeownership successfully. FSS is a HUD-sponsored program designed to help Housing Choice Voucher and Public Housing participant families

¹⁶ <http://file.lacounty.gov/SDSInter/bos/supdocs/150370.pdf>

achieve economic self-sufficiency. In addition to the availability of case management and supportive services, the availability of comprehensive credit counseling would further help to provide these families a responsible pathway to securing and sustaining homeownership and proactively address a significant barrier to entry.

- **Expansion of financial education and homeownership preparation programs.** Homebuyer education is generally a requirement for qualified loan applicants utilizing first-time homebuyer programs. While these are available for loan applicants, these programs do not reach potential homeowners who may not qualify. Expanding homeownership education programs into existing programs that are accessible to all interested home buyers that focus on helping understand the home buying process, learn about financial assistance programs, and set financial plans, may help increase pathways to homeownership. DCBA's Center for Financial Empowerment (CFE) works to enhance financial capability by educating and empowering consumers to make informed financial choices. To assist with closing homeownership gaps, additional funding could allow for CFE to explore opportunities with existing partners to expand its financial empowerment programming to incorporate homeownership education programs. Additionally, this type of program could also include partnerships with CFE, Workforce Development, Aging and Community Services (WDACS), and LACDA to engage current homeowners and older populations for opportunities to target seniors on topics of additional homeowner incentives and transferring of homeownership options for families.
- **Support small "mom and pop" landlords through the Naturally Occurring Affordable Housing Loan Program.** A Naturally Occurring Affordable Housing Loan Program can offer moderate rehabilitation assistance to eligible, responsible owners of small to mid-size rental properties. NOAH is rental housing that is unsubsidized and not already subject to an affordable housing covenant or regulatory agreement, but affordable to households with incomes at or below 80 percent of area median income. The purpose of a NOAH Maintenance Loan Program would be to preserve unsubsidized affordable housing in Unincorporated Los Angeles County, while making repairs needed to ensure habitability, address health and safety issues, maintain scarce affordable housing supply, and prevent displacement. A NOAH program could offer a flexible means through which the County can support small-scale, "mom & pop" landlords to preserve existing affordable housing stock while mitigating displacement pressures.

DCBA will continue to work with LACDA to assess these and other opportunities that may not have been included in this report.

IV. EXPANDING THE LOS ANGELES COUNTY MORTGAGE FINANCIAL RELIEF PROGRAM

In your Board's motion, you also directed the Chief Executive Officer (CEO) to report back on potential funding sources to expand the Los Angeles County Mortgage Financial Relief Program (MFR) that was adopted by your Board on September 15, 2020.¹⁷ To date, \$5.5 million from the Affordable Housing Trust Fund has been allocated to expand the County's Foreclosure Prevention Program (FPP) and MFR as follows:

- 1) \$3 million for emergency rental assistance within DCBA (\$1.5 million for FPP to help homeowners with foreclosure prevention counseling and mortgage assistance, and \$1.5 million for MFR, which will provide deferred/forgivable loans to homeowners to help stabilize their mortgage with payments made directly with their servicer); and
- 2) \$2.5 million, previously allocated to Los Angeles County Development Authority's (LACDA) Homeownership Assistance Program, was reallocated to DCBA specifically for the MFR.

Based on the CEO's review and in-light of the County's current budgetary uncertainties, there are no additional funds available to expand FPP and MFR at this time. However, the CEO will continue to review all potential funding sources and report back to your Board during subsequent budget phases should additional funding be identified.

V. NEXT STEPS

This report outlines notable considerations for determining opportunities and options for the County to build intergenerational wealth and create pathways to homeownership. As these are initial findings, further dialogue and analysis are required for more informed recommendations to your Board.

As a next step, DCBA will continue to work closely with LACDA to submit final recommendations and opportunities for leveraging first-time homeowner programs. DCBA will provide your Board with a final report on or before April 2, 2021.

¹⁷ <http://file.lacounty.gov/SDSInter/bos/supdocs/148821.pdf>