



OAKLAND BUILDERS ALLIANCE
19 Embarcadero Cove, 2nd Floor
Oakland, CA 94606

The Oakland Economic and Neighborhood Recovery Program of 2008

Summary:

The Oakland Builders Alliance recognizes that the housing crisis in Oakland, while part of an overall market decline nationwide, has unique characteristics and is experiencing more severe impacts than most, if not all, Bay Area cities. Oakland's unique housing crisis is grounded in several unfortunate dynamics:

- The oversupply of housing inventory caused by the building industry's interest in coming to Oakland to build based on Mayor Jerry Brown's direct invitation and encouragement.
- The high number of foreclosures based on predatory loans, particularly in communities of color and low income communities throughout Oakland.
- The perception of high crime rates, which is decreasing demand at the same time that supply of housing is too high.

This situation is exacerbated by two problems in the housing market in general:

- More funds are required for down-payments for purchases, and these funds are less available because of the general loss of capital and increasing unemployment.
- Many of the houses that are for sale are not habitable because they have been neglected, vandalized, or otherwise damaged over time.

This situation, while dire, represents Oakland's greatest opportunity in decades to significantly shift the homeownership ratio to unprecedented levels. The Oakland Housing Division reports that they are on track to assist approximately 100 new homebuyers through the Mortgage Assistance Program this fiscal year. We believe it is possible, with a concentrated and effective effort, to increase this number to 500, or more. To do this, the Oakland Builders Alliance is recommending three strategies, that combined, can significantly increase the homeownership rates in Oakland. These are:

- Amend, and increase funding for, the existing Mortgage Assistance Program to provide for as many as 1,000 to 2,000 new home loans in the next 2 years.
- Institute the Oakland Home Renewal Program which would work in concert with the amended Oakland Mortgage Assistance program and provide a funding source and a mechanism which would allow homebuyers to purchase homes which are not habitable and make necessary repairs to them.
- Work with the major institutional lenders to develop an aggressive marketing plan to inform potential homebuyers of Oakland's assets, and to provide special terms for participants of the program.

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Amending, and increasing funding for, the Mortgage Assistance Program:

Amending the Mortgage Assistance Program:

- The program is currently limited to “first time” homebuyers.
We recommend the following change – amend this restriction to allow for any buyer that plans to occupy the residence as their primary residence, and include language to prevent speculation.
- The program does not allow homebuyer’s income to exceed 80% of Area Median Income (AMI) for Alameda County.

We recommend the following change – expand program to allow homebuyer’s income to 120% of AMI.

Justification: The current program has provided about 4 loans a month, as many as 50 loans a year, but is on track to increase this to about 100 loans this year. The current program has funds of approximately 6 million and after making all loans for the year the program has a balance of 2 million of unused funds which will carry over to next year. All but 2 applications were approved in 2007. The 80% of AMI should be increased to allow more renters to become homeowners to take advantage of the low prices. By raising the AMI to 120%, we are not restricting possible buyers at lower AMI’s, but rather increasing the pool of potential buyers. As is clearly shown by the statistics of who purchased under the existing program, supply of dollars exceeds demand under the current restrictions. In fact, with the existing AMI of 80% only 2 buyers purchased at 30-60% AMI. By increasing the AMI, we will allow more people in all income brackets, up to 120% AMI to own, rather than rent, in Oakland, and help get rid of the excess inventory of housing stock for sale. Alameda, Emeryville, and San Francisco all have loans available to homebuyers with incomes up to 120% of AMI.

Currently our limits are so low that we are unable to assist any City of Oakland police officers, fire fighters or teachers or most City employees. With the increase to 120% AMI we will be able to help City workers with home purchases in Oakland.

- The program does not allow the total loans on any purchase to exceed 100% of the purchase price of the property.
Change- Allow the program to permit the total loan balance to exceed 100% of the purchase price when the homebuyer is working with the new Oakland Home Renewal Program. The Oakland Home Renewal Program will provide loans for the rehabilitation of substandard properties.

Finding the funds:

Currently, it is our understanding that the redevelopment housing tax set-aside is approximately \$15,000,000 to \$19,000,000. Most of this goes to the NOFA and the rest goes to the MAP program. We propose that for the next 3 years, this should be switched, with most of the money, perhaps as much as \$15,000,000 goes to the MAP. Additionally, other sources of funds, such as the Central City East housing set aside, should be used in concert with the program. Adding to this the additional \$2,500,000, carried over from last year, creates a fund of potentially more than \$20,000,000 for the MAP and the Housing Rehab fund. Furthermore, an effort should be made to raise an additional \$50,000,000 to \$80,000,000 per year from the federal funds recently allocated under the Housing and Economic Recovery Act of 2008 which was signed on July 30 2008.

Institute the Oakland Home Renewal Program of 2008

This program is being created to address the emergency housing crisis in the City of Oakland caused by the large number of foreclosed and abandoned houses throughout many neighborhoods. The City recognizes that many of these houses cannot be sold because of they are not currently habitable. It is the intention of this program to allow these homes to be sold by facilitating their rehabilitation. No interest loans will be provided to homebuyers in conjunction with the amended Oakland Mortgage Assistance Program to allow homebuyers to purchase and rehabilitate target homes throughout the City.

Key provisions of the Oakland Home Renewal Program of 2008:

- The qualifications for this program would be identical to that of the Mortgage Assistance Program as amended 2008.
- The loan term would be 30 years with no interest accruing. Repayment will be due upon sale, refinance or the conversion of the property into rental housing.
- The loan amount would not exceed \$75,000.
- The proceeds of the loan would be limited to repairs to the home as indicated on the City's list of Approved Repairs and no repair item will be permitted to exceed the dollar amount stipulated on this list.
- The property would be held in joint tenancy with the City of Oakland until all repair work is complete. When the repairs are complete the City of Oakland would deed over to the homebuyer full title and ownership of the property.
- The companies and individuals hired by the homeowner must be City of Oakland businesses and the materials used in the rehabilitation must be from suppliers located within the City of Oakland. All of these businesses and suppliers must be included on the City of Oakland Contractors, Suppliers and Professionals list attached to the Oakland Home Renewal Program of 2008.
- Contracts for work, supervision of work and payment for work would be done by a reputable private, third party construction auditing firm such as Builders Control based in Oakland, according to the standard practices of such a firm. The City of Oakland will take no responsibility for the quality of work, the timeliness of work performed, etc.
- The homebuyer will complete a home renewal plan and submit this plan to the firm for their approval and to the MAP loan underwriter for their approval prior to the purchase of any home.
- It will be the responsibility of the homeowner to complete all work within a 6 month time frame from the purchase of the property. The rehabilitation loan will allow for the payment of carrying costs on the property during the rehabilitation period. If the work on the property exceeds the allowed 6 month time period all moneys will be refunded to the homebuyer and the City of Oakland will take title to the property, complete the repairs and sell the property at market value.
- Both the homebuyers and the homes need to be pre-approved by the Oakland Home Renewal Program of 2008 staff. Priority consideration will go to lower income homebuyers and to properties in areas with the most severe decreases in home prices. Areas with less than a 10% decrease in home values will not be considered. Homebuyers with incomes which exceed 120% will not be considered.

Work with Lending Institutions to market and support the purchase and rehab programs:

Work with the major institutional lenders to develop an aggressive marketing plan to inform potential homebuyers of Oakland's assets. The implementation of these programs and the new funding for them will result in increased first mortgage loans for these lending institutions. The OBA believes they will participate with the City on selling Oakland. Additionally, these lending institutions should explore ways to create better and more flexible terms for buyers participating in the housing purchase and rehab programs.

Conclusion:

Until the inventory of condos and houses in Oakland is sold off, the City will not see a stabilization of its housing prices or of the housing industry. The beginning of any new construction is dependent on the sale of this huge inventory. No major multi-family projects have broken ground in Oakland since August 2007. Several years of no construction and a continuation of large unsold inventories will have profound financial affects on the City's revenues. Unlike San Francisco or even Emeryville, Oakland is particularly dependent on revenues from residential real estate in the form of property taxes, transfer fees, and Community and Economic Development fees. Over 50% of our General funds come from real estate activities and sources.

The City must aggressively and immediately assist in turning around our housing crisis. If homes in Oakland are bought primarily by absentee landlords and speculators in the areas below Highway 580, we will soon have hundreds, if not thousands, of housing units in the Oakland flatlands occupied by renters instead of homeowners, further skewing our homeownership/renter ratio in Oakland toward renters.

On the other hand, this emergency can be an opportunity for Oakland. But without swift and decisive action on the part of leadership and the community it could be a defining tragedy which will corrupt our future for years to come.