

Employee Home Loan Assistance Program

Long-Term Financial Policy and Audit
Subcommittee
September 14, 2023

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Overview

- Median home sale price in Santa Rosa has increased 20% over the past 5 years to \$749,500.
- Current interest rates have risen significantly from historic lows during Covid and are averaging approximately 6.8%.
- These increases in principal and rate have averaged a 60% mortgage payment increase over the last 5 years.
- Housing costs is one of the City's largest challenges to recruit and retain employees. At the median home price, 3% of City employees qualify under FHA standards. At 20% below the median price, 12% qualify for a loan.

How Employee Home Loan Programs Work

- A loan is created between the employee and the City, with principal used for a down payment or up to the full purchase price of a primary residence.
- An interest rate is set, and repayment schedule created where monthly payments amortize the loan over a set period of 30 years.
- A deed of trust is filed with the County to secure the loan against the property.
- In practice, these programs act very much like a traditional mortgage.

Types of Programs

- Executive Level
 - Most common program is for a City Manager, and this is negotiated as part of their contract.
 - Down payment up to 100% purchase price of property
- All Employees
 - Down payment assistance up to a set dollar amount.
- Programs vary greatly based on specific market affordability, reserve status of agency, level of subsidy and risk tolerance.

Interest Rate

- Major advantage of these programs are that the interest rate can be much lower than the market.
- Interest Rate Benchmarks:
 - Treasury return rate of the City is 0.86% YTD
 - LAIF is 3.17%
 - Yield to Maturity at Market 5.05%
 - 30-year Federal Treasury Rate 4.03%
 - Applicable Federal Rate is 3.79%

Policy Decisions

- Interest Rate
 - How much subsidy would the City provide?
 - Can terms be refinanced?
- Who qualifies for the loan program and for how much?
 - Set amount or % of pay
- What are the repayment terms at employment termination or sale?
 - Commonly due in full within 6 months at termination.
 - Does the City have any stake in value appreciation at sale?

Fiscal Impact

- The City operates on a cash basis of accounting.
 - Cash provided for loans reduces available reserves.
- For a Citywide program with 10% participation General Fund available reserve impact would be \$5.2M for a \$60K down payment assistance program.

Program Challenges

- Large barrier for entry in citywide program
 - Not all employees will qualify under loan program requirements or have the financial means to take advantage of the benefit creating inequity amongst employees.
- Messaging
 - To the community
 - To employee groups not included in executive program
- Losses from property devaluation
- Administration
- Budgetary uncertainty and strain on available resources

Questions / Comments