



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: March 23, 2016

Approved

Date

3/24/16

**SUBJECT: ACCEPTANCE OF THE ASSIGNMENT OF LOANS FROM
NEIGHBORHOOD HOUSING SERVICES SILICON VALLEY TO THE
CITY**

RECOMMENDATION

Adopt a resolution authorizing the Director of Housing to negotiate and execute the necessary documents for assignment to the City of the homebuyer loans made by Neighborhood Housing Services Silicon Valley (NHSSV) with City grant funds.

OUTCOME

Approval of the recommended action will authorize the City to accept assignment of the loans made with City funds prior to the dissolution of NHSSV.

BACKGROUND

NHSSV is congressionally-chartered NeighborWorks organization and a local 501(c)(3) nonprofit corporation formed in the mid-1990s, specializing in programs and services that promote and support affordable homeownership and neighborhood revitalization in San José. NHSSV specialized in homebuyer education, counseling and other mortgage and real estate-related services for low- and moderate-income homebuyers. Over the years, the City provided \$4.9 million in grants from restricted housing funds to capitalize a revolving homebuyer loan fund. NHSSV provided thousands of second-mortgage loans to help first-time homebuyers in San José.

Initially, the Housing Department and the Redevelopment agency helped subsidize the operating costs of the organization. In 2005 and 2006, the City informed NHSSV that it needed to become self-sufficient. Ultimately, the dissolution of redevelopment by the State eliminated the City's

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ability to provide operating subsidies. NHSSV increased its loan fees and took other actions to fund its loan operations. Unfortunately, these measures proved to be insufficient. This was partly attributable to a loss of \$1,051,497 in foreclosed loans during the Great Recession of 2007-09. In addition, the challenges of generating fees from new loans became more acute after 2011 as housing prices rose to levels that priced moderate-income buyers, even those with NHSSV-type second mortgages, out of the market. With virtually no market for its second-mortgage loan product, NHSSV could not generate sufficient operating income to sustain its operations.

On June 23, 2015, the City Council authorized staff to negotiate and execute a Workout Agreement between NHSSV and the City to address the organization's immediate need for operating capital to enable NHSSV and/or its potential successor to continue operations of its Home Ownership Center in San José.

http://sanjose.granicus.com/Viewer.php?view_id=&event_id=735&meta_id=521189

The Workout Agreement was intended to: Provide for assignment of all NHSSV generated homebuyer loans originated from City Grant funds and repayments; return to the City the balances of all restricted accounts including repayments of loans originated from City funding sources ("Restricted Account Balances") totaling approximately \$3,500,000; release NHSSV from its obligation to repay \$115,000; and allow NHSSV to pay for eligible operations costs with a total of \$474,000 in City Grant funds.

NHSSV has since determined that even with restructuring the organization's business model is not viable in current and foreseeable market conditions. On March 10, 2016, NHSSV's Board of Directors voted to dissolve the corporation. Consequently, NHSSV has ceased lending operations and is in the process of dissolution.

ANALYSIS

The June 23, 2015 report to Council included NHSSV's estimate that the Restricted Account Balances totaled approximately \$3,500,000. The Housing Department has completed its accounting reconciliation in conjunction with NHSSV and has verified that \$1,051,497 was lost due to foreclosed loans. The cash available to return to the City was verified at \$2,123,401. The funds have been tendered by NHSSV and deposited in the Low- and Moderate-Income Housing Asset Fund and the HOME Investment Partnership Fund.

The City's remaining retrievable assets held by NHSSV are the NHSSV homebuyer loans originated between 2005 and 2010 from City grant funds and repayments. The June 23, 2015 report to Council quoted NHSSV's statement that the organization had 42 active City-funded loans with a value of \$1,236,886. As verified by an accounting reconciliation by City staff, there are currently 33 active loans with a value of \$1,039,189 (with an additional \$126,357 received in the payoff of two loans since June 2015, which is accounted for in the loan pool value estimate noted above).

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Since the Council's original authorization was dependent on the execution of a workout agreement and no agreement was reached on a workout agreement, Staff is now seeking authorization to accept assignment of those active loans from NHSSV to the City. NHSSV will execute conditional assignment documents prepared by staff. Upon Council authorization, these documents can be executed and recorded by the Director of Housing

EVALUATION AND FOLLOW-UP

The Housing Department will provide an update to the City Council via the City Manager's weekly report when the assignment of loans to the City is complete and NHSSV is dissolved.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the April 5, 2016 Council Meeting.

COORDINATION

Preparation of this report has been coordinated with the City Attorney's Office and the Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

These actions are consistent with the recently adopted, 2015-20 Consolidated Plan. One of the main goals of this Plan is to "Increase and Preserve Affordable Housing Opportunities." Based on the original funding sources for the various grants to NHSSV, the funds that will be returned to the City must be used for affordable housing opportunities.

COST SUMMARY/IMPLICATIONS

Approval of the recommended action would allow the City to immediately execute the necessary documents for assignment to the City of the homebuyer loans made by Neighborhood Housing Services Silicon Valley (NHSSV) with City affordable housing funds to the Housing Department. This will result in \$1,039,189 in loans being assigned to the City.

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CEQA

Exempt, File No. PP10-066, Agreements and Contracts. Procedures for dissolution of an agreement.

/s/

JACKY MORALES-FERRAND

Director, Housing Department

For questions, please contact Jacky Morales-Ferrand, Director of Housing, at (408) 535-3855.