

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: May 27, 2009  
POSITION: Neutral

BILL NUMBER: SB 224  
AUTHOR: L. Correa

**BILL SUMMARY: CalHome Program: Homeowner Grants**

This bill would allow the California Housing Finance Agency (CalHFA) to subordinate downpayment assistance loans during a refinance if necessary for the homeowner to avoid foreclosure. The bill also clarifies that CalHome funds administered by the Department of Housing and Community Development (HCD) can be used for manufactured home projects, including installation or retrofit of ignition resistant exterior components on existing manufactured homes in designated fire hazard areas.

**FISCAL SUMMARY**

This bill would have no impact on administrative costs to CalHFA or HCD. While the bill could result in the delay of repayment of some CalHFA loans, that impact is offset by reduced risk of CalHFA loans being extinguished during foreclosures.

**COMMENTS**

The Department of Finance is neutral on this bill for the following reasons:

- This bill will assist homeowners to avoid foreclosure by enabling them to refinance without repaying the CalHFA down payment assistance loan. The CalHFA loan was subordinate to the original loan, so CalHFA's interest is not materially different if subordinated to a new first mortgage. Under current economic conditions, homeowners are unable to pull out sufficient cash from a refinance to payoff the downpayment assistance loan. If homeowners lose their home to foreclosure, CalHFA's security interest would be lost. These provisions are consistent with Administration-sponsored trailer bill recently adopted by the Budget Conference Committee.
- The bill could assist low-income manufactured home owners living in fire hazard areas to install fire resistant exterior finishes. While use of CalHOME funds for manufactured homes is allowable, some local government or non-profits that administer subgrants may not be interpreting the program in this manner. This bill clarifies this issue, and specifically makes it clear that funding can be used to retrofit or install ignition resistant exterior components on existing manufactured homes in designated fire hazard areas.

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Analyst/Principal (0741) K. Amann	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

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**BILL ANALYSIS** Form DF-43 (Rev 03/95 Buff)

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**ANALYSIS**

## A. Programmatic Analysis

**Existing law:**

- Directs CalHFA to administer a downpayment assistance program, including deferred payment, low-interest, junior mortgage loans. Upon refinance or sale of the property, the borrower is required to repay the CalHFA loan.
- Establishes the CalHome program, within the Department of Housing and Community Development (HCD), which provides funding to local governments and nonprofits to enable low and very low income households to become or remain homeowners through grants for down payment assistance, home acquisition, rehabilitation and homebuyer counseling, and through loans to developers for multiple ownership unit developments.
- Authorizes HCD to adopt building standards and use and occupancy standards for manufactured homes and parks. HCD's emergency regulations, and proposed permanent regulations, would require manufactured homes in designated fire hazard zones to be installed with an ignition resistant construction system. Existing manufactured homes would be exempt from this requirement unless the manufactured homes were moved from one location to a designated fire hazard zone.

**This bill would:**

- Allow the subordination of CalHFA downpayment assistance loans to other loans upon refinance if a borrower has demonstrated a hardship and the subordination will avoid foreclosure.
- Clarify that CalHome funds could be used for installation or retrofit of ignition resistant exterior components on existing manufactured homes in designated fire hazard areas.
- Prohibit local government or nonprofit recipients, in administering CalHome funds received by the state, from denying funding applications for housing projects based solely on the fact that the projects included manufactured homes or homes located in a manufactured home park.

**Discussion:**

CalHFA Downpayment Assistance: This bill will allow CalHFA to subordinate down payment assistance loans if necessary when a borrower is refinancing to avoid foreclosure. Normally borrowers would use proceeds from a refinance to pay off the CalHFA loan. However, with the downturn in the economy and the drop in the value of homes, homeowners are unlikely to have sufficient equity or cash to payoff the CalHFA down payment assistance. Without the refinance, the homeowner is at risk of foreclosure, which would result in extinguishing CalHFA's security interest in the foreclosure. If CalHFA can subordinate their loan, the homeowner would be able to refinance into an affordable mortgage and the CalHFA loan would be repaid in the future.

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HCD CalHome Program: According to the author's office, the purpose of this bill is to allow CalHome funds to be used to retrofit or install ignition resistant construction systems for manufactured homes in designated fire hazard zones. According to HCD, rehabilitation, repair and replacement of manufactured homes is already an allowable use of CalHome funds. The author's office also reports that in some cases, local governments who have administered CalHome grants from HCD have denied project applications for CalHome funding because the projects were for manufactured homes. Under the CalHome program, manufactured home projects are an allowable use of funds. The provision of the bill that prohibits local governments or nonprofit agencies from denying applications based solely on the fact that the funds were requested for manufactured homes appears consistent with the intent of the CalHome program.

B. Fiscal Analysis

This bill would have no impact on administrative costs to CalHFA or HCD.

While the bill could result in the delay of repayment of some CalHFA loans, that impact is offset by reduced risk of CalHFA loans being extinguished during foreclosures.

CalHome funds may already be used for projects involving retrofitting or installation of ignition resistant construction systems, and thus the bill would not change HCD's underwriting or program criteria.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP							
	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011	
2240/HCD	SO	No		-----	No/Minor Fiscal Impact	-----			0813
2260/House Fin	SO	No		-----	No/Minor Fiscal Impact	-----			0501
<u>Fund Code</u>	<u>Title</u>								
0501	Housing Finance Fund, California								
0813	Self-Help Housing Fund								