



Institute for Community Economics

# CLT Financing in California Working Paper #4



# CalHOME



---

Developed with support from the U.S. Department of Housing and Urban Development, Office of Community Planning and Development, San Francisco Field Office

*This is one in a series of working papers designed to assist Community Land Trusts (CLTs) in California in accessing statewide financing resources to produce permanently affordable homeownership opportunities for low and moderate income families. CLTs are community based nonprofit organizations that hold title to land as a means to stabilize communities and preserve investment in affordable housing for the benefit of future generations. CLTs generally sell the homes that sit on the land to eligible homebuyers and enter into long term ground leases which offer the residents the benefits traditionally associated with homeownership while limiting the resale price of the home so that it remains affordable to future low or moderate income buyers.*

## **I. Introduction**

The California Department of Housing and Community Development (HCD) operates a variety of housing assistance programs, including the Federal HOME and CDBG programs<sup>1</sup> and a number of programs that are funded by Proposition 46<sup>2</sup>. The majority of HCD's funds provide assistance for rental housing. Approximately \$190 million in Prop 46 funds were allocated to HCD's CalHome program for ownership housing.

Community Land Trusts (CLTs) can use CalHome funds to develop units and provide subsidies for individual homebuyers. For reasons described below, it will be difficult to retain CalHome subsidies for specific homes within a CLT. In the long run, it will be important for CLTs and other sponsors of permanently affordable housing to engage HCD and the State Legislature to make the program more compatible with resale controls and permanently affordable housing.

## **II. CalHome Overview**

The CalHome program was created in the mid-1990s as a general homebuyer assistance program within HCD. It combined a number of existing home ownership programs for ease of administration. In addition to the general program, CalHome has two subprograms. These programs are Building Equity and Growth in Neighborhoods (BEGIN)<sup>3</sup> and the California

---

<sup>1</sup> The US Department of Housing and Urban Development (HUD) provides grants under the HOME Investment Partnerships Program and Community Development Block Grant (CDBG) Program to cities, counties and states to use for local housing and community development efforts. HCD administers these programs on behalf of cities and counties that do not receive funds directly from HUD.

<sup>2</sup> Proposition 46 is the Housing and Emergency Shelter Trust Fund Act of 2002. It was passed by the voters to authorize providing \$2.1 billion in subsidies for affordable housing. The funds are divided among a number of programs at both HCD and the California Housing Finance Agency (CalHFA). These funds will be used to provide loans and grants to finance the development, acquisition and rehabilitation of more than 85,000 affordable rental and ownership homes through 2007.

<sup>3</sup> The enabling legislation for BEGIN is located at Section 50860 of the California Health and Safety Code. BEGIN is governed by the CalHome regulations and also has its own guidelines. Both the BEGIN enabling legislation and guidelines are available online.

Self-Help Housing Program (CSHHP).<sup>4</sup> Together, the CalHome program and its subprograms are authorized to provide assistance for the following housing projects and activities:

- Housing development
- Housing acquisition
- Housing rehabilitation
- Housing acquisition with rehabilitation
- Down payment assistance
- Home buyer counseling
- Self-help technical assistance

While CalHome's enabling legislation is very broad and specifically authorizes the use of the program with permanently affordable housing models, HCD has adopted regulations that make it difficult to use the main CalHome program with resale controls and in CLTs. And while the BEGIN guidelines specifically authorize the use of funds for CLTs, aspects of the program's guidelines make it difficult to use the program with resale controls and in CLTs. Sponsors of permanently affordable housing will need to engage HCD to ensure that CalHome can be used to finance homes in CLTs.

#### **A. CalHome Program**

The basic CalHome Program received \$108 million from Proposition 46, which will be awarded to local governments and nonprofit corporations for use through 2007. CalHome funds can be used to finance the development of affordable housing projects. The funds can also be used to provide down-payment assistance loans – silent seconds – for individual homebuyers. In addition, when individual homebuyers repay loans, the funds may be retained in reuse accounts or revolving loan funds and used to fund new loans in the future. A portion of the funds placed in reuse accounts may be used to administer the loan program.

#### **B. Building Equity and Growth in Neighborhoods (BEGIN) Program**

BEGIN is the newest component of the CalHome Program. It was created in 2002 and received \$72 million from Proposition 46. The program's name, philosophy and general operations are based on a model program that operated under HCD's HOME Investment Partnerships Program.

BEGIN provides grants to cities and counties that provide regulatory incentives, or reduce and remove regulatory barriers, to encourage the development of affordable housing. Examples of these incentives include density bonuses in excess of those required by state law, reductions in parking and setback requirements and other relaxed building or development standards.

BEGIN appears to be an ideal program for financing CLT projects. CLT projects typically use innovative designs and receive concessions from local governments. These make them ideal

---

<sup>4</sup> The enabling legislation for CSHHP is located at Section 50690 of the California Health and Safety Code. The CSHHP regulations begin at Section 7530 of Title 25 of the California Code of Regulations. Both are available online.

candidates for the BEGIN funds. In addition, the BEGIN guidelines specifically authorize funds to be used for leasehold and CLT projects.<sup>5</sup>

Local governments that receive BEGIN grants may use the funds to help finance the development of housing projects that receive regulatory incentives and concessions. The funds may also be used to provide down payment assistance loans for low and moderate-income households<sup>6</sup> who buy homes in these developments. As in the basic CalHome program, BEGIN funds may be retained in a local revolving loan account as the original loans are repaid and a portion of this program income may be used to cover the local program's operating costs.

### **C. California Self-Help Housing Program (CSHHP)**

HCD has supported self-help or owner-builder housing since 1979, first through the California Housing Advisory Service (CHAS) and more recently through the new CSHHP program. In the past, CSHHP provided administrative grants plus both project development and individual homebuyer loans. Since being absorbed by CalHome, it only provides administrative (“technical assistance”) grants for self-help projects. Loans for project development and individual homebuyers now come from the basic CalHome program. CSHHP received \$9.5 million in Proposition 46 funds, which will be awarded to nonprofit corporations and local governments over four years.

Self-Help grants are typically awarded to nonprofit agencies that organize projects in which families build their own homes using the mutual self-help method.<sup>7</sup> The funds pay for construction supervision and other technical and administrative services that the agencies provide to the families who build their own homes.

## **III. Conclusion and Summary**

CalHome offers grants to local governments and nonprofit agencies to provide financing that can help make home ownership more affordable for low- and moderate-income households. Most of the available funds can be used first to develop affordable homes and then be reused to provide direct second loans to individual homebuyers. CalHome's BEGIN component only provides grants to local governments, who can use the funds to assist homes that are developed by nonprofit agencies. CalHome's Self-Help component provides administrative grants for projects in which home buyers build their own homes.

Due to CalHome's preference for assisting homes that are free from resale controls, CLTs may find it difficult to use CalHome funds to assist individual homebuyers. CLT representatives should discuss the structure of their projects with HCD prior to applying for CalHome funds to determine how compatible the program is with your lease and resale agreements.

---

<sup>5</sup> Authorization for financing leaseholds is in Sections 114(b)(5) and 115(a)(2). Authorization for CLTs is in Section 114(b)(5)(B).

<sup>6</sup> BEGIN is the only HCD program that allows funds to be used to assist “moderate income” households – those who earn up to 120% of the area median income adjusted for household size.

<sup>7</sup> Under mutual self-help, a group of families work together to build a group of homes at the same time. Families work on each others' homes and no family may move into their individual home until all of the homes are completed.