AGENDA #5

Disaster Rebuilding Assistance Program (DRAP)

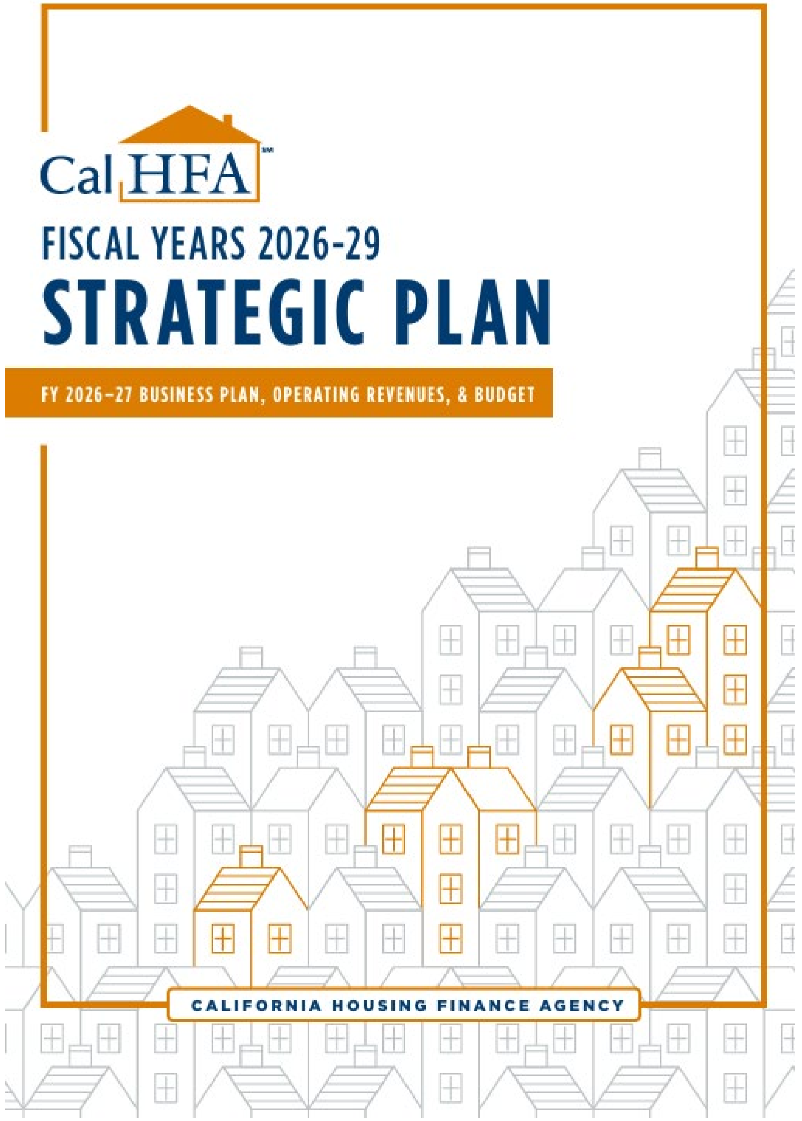
Ellen Martin

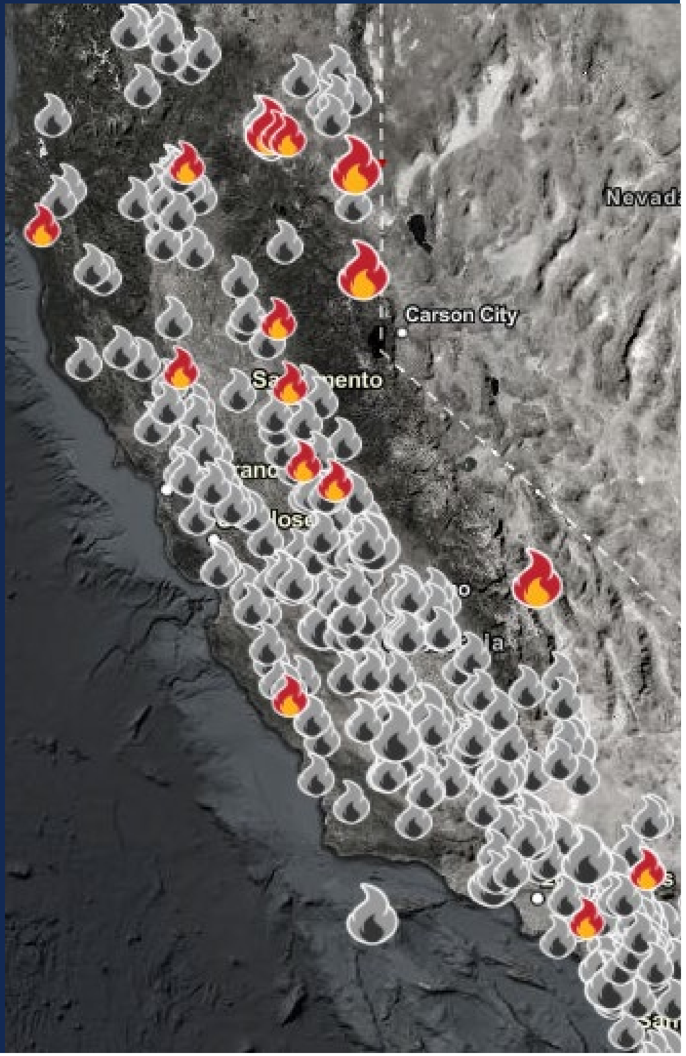
Director of Homeownership

Strategic Plan

Strategic Plan Goal 1: Advance Housing Opportunities

<u>Initiative 2:</u> Develop new homeownership supply program(s) to incentivize the production of new entry level homeownership products.





California's Escalating Disaster Impacts

California facing **increasing** disaster severity:

- Nearly 13,000 homes since 2023.
- 2025 Palisades & Eaton Fires caused major urban-wildland housing loss and long-term displacement.

Barriers to Rebuilding

- Survivors face limited federal support and rising construction costs, slowing recovery.
- Severe delays and inequities in recovering communities.

Disaster Rebuilding Assistance Program

AB 179 establishes the **Disaster Rebuilding Assistance Program** to expand access to reconstruction lending for income-eligible homeowners.

- Tools to:
  - Reduce lender risk
  - Lower borrower costs
  - Support homeownership

Proposed Resources:

- $56 M State General Fund
- Reallocation of $44M National Mortgage Settlement (NMS) funds from CalAssist.
- Requires CalHFA Board approval to appropriate funds to statutorily approved uses

Disaster Rebuilding Assistance Program (DRAP)

Proposed Program Fra
Implementation Time

Program Overview

Objectives

Increase access to and availability of construction financing for properties damaged or destroyed by qualified disasters.

Reduce risk and cost of construction financing for low- and moderate-income homeowners.

Specific Programs

Construction Loan Loss Guarantee Program: the state reimburses lenders for a portion of losses on eligible construction loans.

Construction Loan Rate Buydown Program: the state reimburses lender funded rate buydowns or other prepaid interest to lower borrowing costs.

General Eligibility Considerations for Programs

Property & Homeowner Eligibility

- State of Emergency proclamation or Major Disaster Declaration
- Owned or occupied home as primary residence at the time of the disaster
- Intend to occupy as primary residence within 60 days
- Property types
  - Single Family Units
  - Planned Unit Developments
  - Individual Condominium Units
  - 1-4 Unit Properties
  - Accessory Dwelling Units
  - Manufactured homes – if permanently affixed on land owned by the borrower

Income Limits

Construction Loan Loss Guarantee

- Based on **200%** AMI
- Credit qualifying Income

Construction Loan Rate Buydown

- Based on **150%** AMI
- **100%** AMI borrowers eligible for additional assistance
- Credit qualifying income

Los Angeles County

AMI Percent (%)	Income ($)
100%	$142,700
150%	$214,000
200%	$285,400

Lender Eligibility

- Lenders must meet the following minimum requirements:
  - Properly licensed
  - Demonstrated construction or renovation lending experience
  - Established operating history
  - Meet minimum financial capacity requirements

- All lender types are encouraged to participate including:
  - Existing CalHFA-Approved Lenders
  - Fannie Mae, Freddie Mac, or FHA-Approved Lenders
  - CDFIs and other Non-GSE approved lenders

Construction Loan Requirements

- All forms of 1st and 2nd lien construction and renovation loans (e.g., renovation loan, construction loan, construction to permanent loan, HELOC)
- Lender Participation Agreement
- Consumer Protections
  - Limitations on lender compensation and fees
  - Educational resources
  - Contractor requirements
  - Managed construction escrow
  - Underwriting requirements

CalHFA℠

Construction Loan Loss Guarantee Program

Strengthening Construction Lending Through Risk Reduction

De-risking lending for construction period so that:

1. Construction lenders are more willing to offer construction lending products.
2. Liquidity providers are more willing to provide capital for construction lending.
3. Liquidity providers reduce the cost of capital in exchange for reduced risk during the construction period.

Approach:

1. Identify key areas of construction risk.
2. Identify associated costs or losses for construction lender.
3. Mitigate lender losses through loan guarantee mechanism.

Program Specific Details

Construction Loan Loss Guarantee Program

- Capitalized by state budget appropriation
- Fund will support issuance of guarantees using a multiplier of 10:1
- Guarantee in place for 36 months

Eligible Loss Calculation

Loan Loss Guarantee reimburses lenders for a portion of net losses incurred when the sale of a property or disposition of a construction loan results in proceeds below the lender's total cost basis.

GROSS PROCEEDS

Gross Proceeds from the arm's-length transaction of a completed property sale or loan disposition

−

TOTAL NET COST BASIS

The total cost basis on the loan at the time of sale or loan disposition, net of other sources of reimbursement

=

ELIGIBLE NET LOSS

Gross Proceeds minus Total Cost Basis

×

PROGRAM BENEFIT

75% of Eligible Net Loss
Up to $250,000 per loan

TOTAL COST BASIS INCLUDES:

- Outstanding principal balance
- Remaining costs to complete the construction in accordance with approved budget
- Accrued and unpaid interest
- Corporate advances
- Other Costs

Reimbursement is limited to 75% of eligible net losses, up to a maximum of $250,000 per loan.

Construction Loan Rate Buydown Program

Direct Assistance to Borrowers by Reducing Cost of Construction Financing

Improve access to construction financing for low- and moderate-income disaster survivors by:

1. Lowering interest cost during construction
2. Lowering monthly payments on permanent mortgage
   - Lower interest rate
   - Lower principal loan balance
3. Improving ability to qualify by reducing debt-to-income ratios

Program Specific Details

Construction Loan Rate Buydown

- Reimburse for lender funded rate buydowns
  - Temporary
  - Permanent
  - Both construction and permanent loan are eligible
- Reimburse for other forms of lender prepaid interest
- Tiered assistance targeting funds to lower income borrowers
  - 100% AMI and Lower – up to $100,000 per property
    - 5% of the construction loan amount; and
    - 5% of the permanent loan amount.
  - All other borrowers – up to $50,000 per property
    - 3% of the construction loan amount; and
    - 3% of the permanent loan amount.

Timeline & Milestones

Timeline & Milestones

Initiate Program & System Design

Submit for CalHFA Board Approval

Lender Onboarding, Marketing & Outreach

APR | JUN | JULY | AUG | SEPT

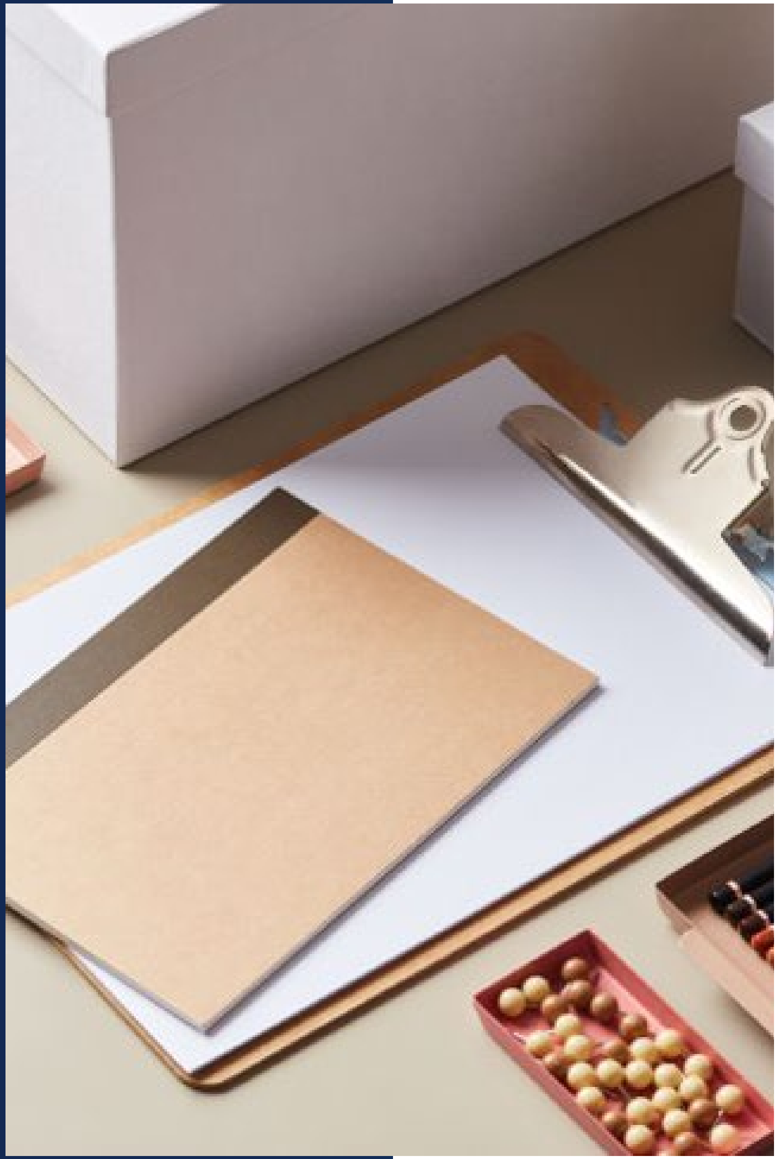
Obtain State Budget Approval

Announce Program

* Construction Loan Loss Guarantee

* Rate Buydown

Maintain Outreach & Monitoring



Staff Recommendation

Approve Resolution 26-21

- Approving distribution of National Mortgage Settlement and State Budget funds to the California Disaster Rebuilding Assistance Program and;
- Authorizing staff to implement said program by executing all agreements and developing the necessary guidelines, term sheets, documentation, and the technological capabilities to implement the Program.

Questions