



AGENDA SUMMARY EUREKA CITY COUNCIL

TITLE: MODIFY FIRST TIME HOMEBUYER AGREEMENTS

DEPARTMENT: Finance

PREPARED BY: Lane Millar

PRESENTED FOR: Action Information only Discussion/Direction

RECOMMENDATION

Authorize amendments to the City's promissory notes to permit borrowers the choice of repaying loans through either the "Interest Payment" method or the "Appreciation Payment" method

FISCAL IMPACT

No Fiscal Impact

Included in Budget

Additional Appropriation

COUNCIL GOALS/STRATEGIC VISION

Be Financially Responsible

DISCUSSION

The City of Eureka offers First Time Homebuyer Loans, some of which are now more than 20 years old. These loans are governed by promissory notes that have varied in terms of language and conditions since their inception in 2001. A notable variation among these agreements is the method by which a loan can be repaid. In some cases, the agreements mandated that the borrower make an "Appreciation Payment," requiring up to 50% of the home's appreciation value to be paid to the City as part of the loan settlement. Conversely, other agreements included the "Appreciation Payment" clause but also provided an option for an interest payment at an average rate of 3%, with the borrower obliged to pay the lesser of the two amounts. This agenda item includes examples of both types of the City's promissory notes.

Since 2001, the value of homes in Eureka has risen substantially. This increase poses a significant challenge for borrowers limited to the "Appreciation Payment" method for calculating loan payoffs, as the required payoff amount may become prohibitively large. For instance, a first-time homebuyer who purchased a home in 2001 for \$120,000 with a \$15,000 "bridge loan" from the City—requiring no repayment until the primary

mortgage is settled, the loan is refinanced, or the home is sold—would today face a potential payoff amount of up to \$125,000 using the "Appreciation Payment" method, compared to approximately \$30,000 with the "Interest Payment" method.

To address this disparity, staff recommends that borrowers holding promissory notes without the "Interest Payment" option be granted the same opportunities as those afforded to other City borrowers. This adjustment aims to provide equitable treatment for all First Time Homebuyer Loan recipients in Eureka.

Attachments:

- Example 1 – Promissory Note without Interest Option
- Example 2 – Promissory Notes with Interest Option

REVIEWED AND APPROVED BY:

- City Attorney
- City Clerk/Information Services
- Community Services
- Development Services
- Finance
- Fire
- Personnel
- Police
- Public Works