TO: Mayor and City Council

FROM: Councilor Shane Matthews, Ward 3

SUBJECT:

Directing staff to evaluate the Salem First Keys Fund as an alternative to below-market disposition of Salem Housing Authority properties.

Ward(s): All wards
Councilor(s): All councilors
Neighborhood(s): All neighborhoods

MOTION:

I move to direct staff to reevaluate the current proposal for liquidating SHA scattered housing assets against a longer term endowment fund model

DISCUSSION:

The analysis shall evaluate selling them identified properties at fair market value, depositing net proceeds into a restricted interest-bearing fund, preserving the principal, and using annual interest earnings to provide zero-interest silent second homebuyer assistance loans for eligible buyers purchasing owner-occupied homes inside Salem city limits.

The purpose of this motion is to make sure Council has a full comparison before deciding whether to dispose of a large portfolio of public housing assets at a substantial discount.

Based on the staff-provided property list, the identified 79 units will be liquidated at an 8 unit per year rate and appear to have an estimated market value of approximately $24,831,000. 33 of those units are valued at $8,761,000 and proposed to be sold to a third party provider at a discounted value of $1,314,150. If those figures are confirmed, the proposal would transfer the properties at 15% of market value, or an approximate 85% discount.

The remaining 46 units valued at $16,070,000 are expected to be sold direct to consumer for approximately 28.6% of market value or a total of $4,600,000.

Category	**Units**	Fair **Market** Value	Proposed Sale Price	% of Market Value	Approximate Discount	Discount Amount
Third Party Provider	33	$8,761,000	$1,314,150	15%	85%	$7,446,850
Direct to Consumer	46	$16,070,000	$4,600,000	28.6%	71.4%	$11,470,000
Total	**79**	**$24,831,000**	**$5,914,150**	**23.8%**	**76.2%**	**$18,916,850**

Habitat for Humanity

The question is whether the City and Salem Housing Authority can create a greater long-term public benefit by preserving the value of these assets instead of transferring most of that value in a one-time transaction.

The Salem FirstKeys Fund would take a different approach. The properties would be sold at or near fair market value, subject to legal review and any applicable restrictions. The net proceeds would be placed into a restricted interest-bearing fund. The principal would be preserved, while annual interest earnings would be used to help eligible Salem buyers purchase homes inside city limits.

The buyer assistance would be structured as a zero-interest silent second loan. The loan would require no monthly payment. It would be repaid when the home is sold, transferred, refinanced, converted to a rental, or no longer used as the buyer's primary residence. A deed restriction would prohibit rental conversion unless the silent second is repaid.

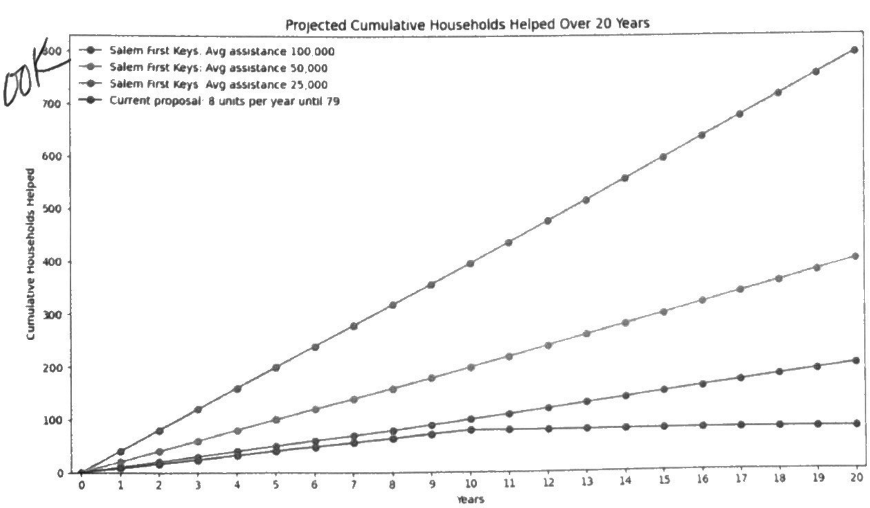
How is this determined

The program would have a maximum assistance amount of up to $100,000 per household, but that amount would be a cap and not an automatic award. Some buyers may only need $25,000, $40,000, $50,000, or $75,000 to make a purchase work. The assistance amount should be based on actual need, lender qualification, household income, purchase price, and the amount necessary to close the affordability gap.

Using the approximate $24.8 million market value shown in the staff materials, a 4% annual return would generate close to $993,000 per year. At the maximum assistance level of $100,000, the fund could help roughly 9 to 10 households annually. If the average assistance amount is lower, the program could help more households each year. For example, an average assistance amount of $50,000 could help approximately 18 to 20 households per year, and an average assistance amount of $25,000 could help approximately 36 to 40 households per year.

What is our goal in assistance

Why do I get $100K vs $25K



All repaid silent seconds should be returned to the principal balance of the fund. This is an important part of the proposal because it allows the fund to grow over time and helps protect the value of the fund against inflation. Without reinvesting repayments into principal, the purchasing power of the fund will decline over time.

The program would also create broader economic benefits inside Salem than a single discounted property transfer. Because all assisted purchases would have to occur inside Salem city limits, the program would support local sellers, real estate brokers, lenders, title and escrow companies, appraisers, inspectors, insurance agents, and contractors. The activity would be spread throughout Salem's housing market rather than limited to one portfolio of properties.

As with any proposal, administrative cost and staff capacity are always a concern. The program should be designed to avoid the City or Salem Housing Authority acting as a mortgage lender. Instead, the program should be local lender-driven. Participating local lenders and underwriters would prequalify buyers, verify income, review credit, determine first mortgage eligibility, and identify the amount of assistance needed. Only complete and prequalified files would be sent to SHA for final verification and approval.

In that model, the Salem Housing Authority would verify program compliance rather than perform full mortgage underwriting. The City or Salem Housing Authority would confirm the buyer meets program rules, the property is inside Salem city limits, the assistance amount is within the cap, funds are available, and the silent second and deed restriction are properly recorded through title and escrow.

This motion asks staff to determine whether this alternative is legally and financially workable before final action is taken on the proposed below-market disposition. If the current proposal is the best public policy option, the comparison should show that. If the Salem FirstKeys Fund produces a greater long-term benefit, Council should have that information before making a final decision.

Silent 2nd no
last 4 yrs ≠ growth

Attachments:
- Salem FirstKeys Comparable Programs

New for Salem, but not an new idea

Across the nation, including our own backyard, other communities have implimented versions of this program with great success. Below are examples of where they intertwine with the Salem FirstKeys framework.

Point	Finding	Implication
1	The silent-second concept is not novel.	Tampa explicitly describes its DPA loan as a silent second because of its 0% rate and $0 monthly payment.
2	The lender-driven model is a practical answer to administrative burden.	San Diego and LA County rely on participating lenders to prequalify buyers or submit applications.
3	The local-purchase boundary is common.	Portland, Tampa, San Diego, and Los Angeles limit assistance to homes inside defined local boundaries.
4	Public sale proceeds can be dedicated to affordable housing.	Detroit directs 100% of city-owned commercial property sale proceeds into its affordable housing trust fund.
5	The Salem distinction is principal preservation.	Salem FirstKeys would sell assets at fair market value, preserve principal, use annual earnings for assistance, and recycle repayments into principal.

Does it Work?

San Diego: 6,100+ first-time homebuyers helped since 1988. 19 first-time buyers helped in FY26 Q1 with $1.57 million; average assistance about $82,798.

Los Angeles: 316 LIPA loans over five fiscal years with $24.47 million; average assistance about $77,424.

Tampa: 38 households helped in about 18 months with more than $1 million.

Portland Housing Center: 23 second-mortgage DPA loans in FY24 totaling $1.65 million.

Eugene: 10 housholds assisted using $381,000 and an average assistance amount of $38,100.

Detroit: 100% of city-owned commercial property sale proceeds now go into a housing trust fund expected to generate about $4 million annually.

Links to other Programs

[1] Portland Housing Bureau, Down Payment Assistance Loan Program — https://www.portland.gov/phb/down-payment-assistance-loan

[2] City of Tampa, Dare to Own the Dream — https://www.tampa.gov/housing-and-community-development/programs/mortgage-assistance

[3] San Diego Housing Commission, First-Time Homebuyer Programs — https://sdhc.org/housing-opportunities/first-time-homebuyers/

[4] Los Angeles County Development Authority, Home Ownership Program — https://www.lacda.org/home-ownership/home-ownership-program

[5] City of Los Angeles Housing Department, Low Income Purchase Assistance (LIPA) — https://housing.lacity.gov/housing/helping-low-income-first-time-homebuyers

[6] City of Los Angeles Housing Department, Moderate Income Purchase Assistance (MIPA) — https://housing.lacity.gov/housing/help-moderate-income-first-home-buyers

[7] City of Detroit, Affordable Housing Trust Fund commercial sale proceeds executive order — https://detroitmi.gov/news/mayor-sheffield-issues-executive-order-more-double-contributions-affordable-housing-trust-fund

[8] City of Eugene, Affordable Housing Trust Fund — https://www.eugene-or.gov/4232/Affordable-Housing-Trust-Fund