



Background

Donna Lewis, Branch Manager and SVP of Mortgage Lending at Guaranteed Rate, reached out to City of San Luis Obispo Staff on November 1, 2021 to provide input on the HouseKeys contract. Staff has asked HouseKeys to respond since the questions directly address HouseKeys model and contract.

Preamble

I want to first thank Donna Lewis for her input. Each Agency engagement is a new opportunity for HouseKeys to learn. I am so grateful to the San Luis Obispo staff for coordinating our “listening tour” and giving us a chance to hear from the public directly in three separate sessions. Donna’s input goes a long way in helping to show how a partner like HouseKeys can be helpful in responding to requests from the public and for communicating the purpose and intent of the city’s affordable housing programs, including homeownership, rental, and first-time homebuyer down payment assistance.

The benefits of a Program Administrator wholistically manage the program are as follows:

- Transparency (outward face for the program with visibility into to all transactions)
- Efficiency (allows program to scale up effectively without building a new city department)
- Accountability and compliance (through a variety of methods, ensures that all transactions are accomplished in compliance with State law)
- Equity and Inclusion (improves public awareness and ability to engage and participate in the program)
- Customer Service (improves our ability to respond to and support the needs of buyers, sellers, agents, lenders, developers)

Below are some key questions raised by Donna Lewis and responses from HouseKeys:

1. Intended role of Program Administrator

It appears that it is Housekey’s intention to act as the City’s Agent for each and every low/moderate new sale or resale transaction. Was that the purpose and intent of the City?

HouseKeys Response: City’s intent was always to have a third-party take over the program in its entirety. This includes the Homeownership, Rental, and First-Time Homebuyer Program. While it took 20 years for the city to accumulate a homeownership program inventory of approx. 80 units, it is projected to more than double this count over the next few years. Formalizing the role of the Administrator – whether staffed by a Third-Party or by internal staff – is a critical component to creating a standardized, scalable and sustainable program.

2. Fees

Housekeys is proposing additional fees that are significant relative to what’s been charged in the past. Keeping in the mind that these transactions are for low and moderate-income buyers, it seems not reasonable to pass these fees on to the buyer, nor is it reasonable to assume these fees can be charged to the lender or seller of these units (whether resale or new development).

HouseKeys Response: There are specific workflows and costs borne by staff across the city’s organizational chart. This is not always obvious to the public. A developer agreement and resale

restriction agreement has legal workflows involving the City Attorney, the excess sale proceeds created when a restricted home is sold has accounting implications, and all marketing is subject to fair housing considerations that escalate up to management and council.

The regulatory landscape, and the oversight from the state has also changed with increasing scrutiny and oversight. In order to maintain program transparency and accountability on all levels (marketing, procurement, transactions, accounting) service costs must be modified to account for true costs of services.

Housekeys require the developer pay 3% to Housekeys to represent the buyer's side of new build transactions & they propose to act as the listing agent for all resale transactions at a fee of 6%, offering only 2% to the buyers side agent. The City does not benefit from the fee structure.

Generally the developer markets affordable units at the max sales price as determined by the City and they may or may not cooperate with a "buyer's side agent" because most buyers have already registered on an interest list with the developer (procurement of the buyer/lead) which is common in all new development. If the buyer is working with an agent, the buyer registers their agents name with the developer at the same time the buyer is added to an interest list, and the developer may pay a 1.5%-2.5% referral fee to the buyer's agent. Most buyer's agents stay engaged in the process but the buyer generally works with the builder's sales office going forward and throughout the transaction. The developer works with someone like myself to facilitate the vetting of buyer prequalification and the buyer's ability to be certified by the City as a low/moderate income buyer.

HouseKeys Response: The City Inclusionary Housing Program has never been a financial benefit to the City. It's been subsidized by the General Fund and was not enough to cover the full cost of administration. The full benefits of having a Program Administrator are described above in the preamble.

Additionally, the fees generated by the local ecosystem (developer, realtor lender, buyer) do not contribute to the cost of program administration. For e.g. fees related to the City's BMR homeownership program also provide for management of the City's BMR rental program. With HouseKeys, whatever revenue is generated is contributing to the cost of administration.

Up to this point, the only fee charged to an affordable buyer related to the City's vetting process has been a \$350 certification fee (charged by an entity such as HASLO or PSHHC).

HouseKeys Response: Related to Income Certifications, HASLO is no longer providing this service and PSHHC is only providing this service on a temporary basis until an Administrator takes over this service.

3. Procurement:

Procurement of those interested in affordable housing is not the difficult part. It's keeping those who are interested informed about all opportunities and then letting them seek those on their own whether it be working with a new development/builder's sales office or working with a local Real Estate Agent of their choosing. Housekey's seems to be proposing or creating a structure for itself that controls the process entirely, while generating significant revenue for Housekeys with no financial benefit to the City.

Does it make sense for the City to allow Housekeys to become the "marketer" of these units in the name of Housekey's vs solely marketing the City of SLO Affordable Housing program?

Housekeys proposes to maintain a list of buyers – procuring the buyer for the right to collect a commission – and they propose to require all real estate agents, lenders, title & escrow companies, to become certified AND

pay an annual fee for the privilege of being on their list of certified vendors. While I don't think it's a bad idea to put real estate agents, lenders, and title companies through a certification process to make sure they are clear on the process and flow on these transactions, it seems a reach to charge an annual fee to remain on the list and this fee goes to Housekey's and not the City.

HouseKeys Response

Standardization of procurement is critical. At the Federal and State Level the City is being evaluated for how equitable and transparent any outreach effort is.

The procurement process for how buyers are introduced to the program and how the program is operated is being scrutinized by HCD (e.g., ensuring that properties are priced properly, buyers can afford the housing payment). Finally, the City's own Diversity, Equity, and Inclusion goals are being used as a performance measure.

Lastly, the Administrator will ensure that all parties involved (real estate agents, lenders, etc.) know how to comply with the program and there is a third-party to provide oversight and better customer service. Management of an approved vendor list includes creating a fair process to get on the list, hosting group and 1-on-1 trainings, creating content, updating materials, and fielding input from the public as complaints arise about response from individual providers. The annual fee is used both to contribute to costs and to establish commitment by the professionals who are on the list.

4. Infringement into local ecosystem

There is an entire real estate eco-system locally which already exists and Housekey's seeks to replace this, costing the developer a significant amount more on units they are already selling at way below market (losing money on) and cutting out buyer's agents locally so that the buyer doesn't have the hands-on representation they may desire and often need. (Side note – 6% is not the customary listing fee in SLO...it is 5% in general and may be even lower in total for new construction; 2.5% or 50% is commonly offered to the buyer's agent).

HouseKeys Response

The local ecosystem of loan officers, real estate agents, housing counselors, community organizations, and homebuilders play and will need to continue to play a critical role in providing housing to residents. However, the ecosystem that exists is not able to provide the full range of benefits of a third party administrator as outlined in the preamble.

Housekeys provides a centralized marketplace, training and the standardization required for a program that needs to substantially scale up as soon as possible to meet the anticipated market and customer service demands associated with all the new affordable housing units in the City's development pipeline.

Finally, a fee schedule was submitted with the RFP for consideration in response to the City's request. Housekeys is committed to ensuring that listing fees are customary and commensurate with the local market.