

*City of Alexandria, Virginia*15
11-26-02

MEMORANDUM

DATE: NOVEMBER 20, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: SUBMISSION OF APPLICATION FOR FUNDING TO THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY (VHDA) FOR THE ROUND 2 SPONSORING PARTNERSHIPS AND REVITALIZING COMMUNITIES (SPARC) PROGRAM

ISSUE: Consideration of City application for funding under VHDA's SPARC Program funds to provide a City allocation of first-trust, low-interest, mortgage financing for low-income participants in the City's Homeownership Assistance Program (HAP).

RECOMMENDATION: That City Council approve the submission of an application to VHDA for \$1,719,480 in SPARC Round 2 program funding for HAP loan recipients and, if the City's remaining balance of Round 1 funding is recaptured, additional Round 2 funding of \$2,563,730 (for total Round 2 funding of \$4,283,210) to continue Round 1 activities targeted to specific employee groups.

BACKGROUND: In January 2002, the City received an allocation of \$2,936,000 from VHDA's first round of SPARC program funding. These funds were targeted to federal, state, and local government employees, to employees of public and private schools located in the City, and to employees of employers participating in the City's Employer Assisted Housing initiative.

DISCUSSION

Round 1 SPARC Activities: To date, two Alexandria City Public School employees and one City employee have been assisted through the SPARC program, which provided \$324,150 in first-trust financing. The City's Employer Assisted Housing (EAH) program continues to be developed with local employers and four local employers agreed to become participants in the pilot phase, but no home purchase loans have been made under this program to date.

Outreach on the availability of SPARC funds began immediately after the release of funds and included mailings to all government and school employers located within the City, ongoing publications of announcements in City, school and other employee newsletters, two community-wide meetings related to the program, two general briefings for City employees, 16 briefings at

City New Employee Orientations, and 17 small group briefings for City and school departments, divisions and committees. The availability of SPARC first-trust financing was also highlighted at the City's Eighth Annual Homeownership Fair, at the City's annual Health and Benefits Fair, and at the New Teacher Welcome and the Family Involvement Rally for Student Success, both sponsored by the Alexandria Education Partnership and Alexandria City Public Schools. As a result of this outreach, over 160 households have been identified as SPARC-eligible by employment. Of these, 86 have attended the City's five-hour group homeownership training course, but none, other than the three already-assisted households, have produced executed purchase contracts for an eligible Alexandria property.

In September, the City was notified that VHDA increased its sales price limit for existing homes from \$171,800 to \$213,200. The previous purchase price limit was commonly identified as a barrier to using VHDA funds in the City and it is expected that this change will improve the ability of program participants to use SPARC funds in the City's high cost housing market. During FY02, the City's HAP and Moderate Income Housing Program (MIHP) programs have assisted three government and/or school employee households whose purchase price limit exceeded VHDA's previous sales price limit.

VHDA program guidelines call for unspent Round 1 funds to be recaptured at the end of the calendar year. Housing staff has had conflicting responses from VHDA as to whether this will actually occur. In the event that the City's unspent Round 1 funds (now estimated to be \$2,611,850) are recaptured, the application requests an additional \$2,563,730 (for a total of \$4,283,210) to assist 13 households in Round 1 employee target groups. These are expected to be households meeting the higher MIHP income limits, as the requested SPARC funding for HAP participants can serve HAP-eligible target group employees. Therefore, the continuation funding request is based on a home purchase price affordable to a household with an income of \$57,327, which is the average income for MIHP participants during the most recent 16 month period (beginning July 2001). It is expected that these households may qualify to purchase a home with a sales price of \$209,200, of which \$197,210 is expected to be provided through SPARC funds (see Attachment I). The SPARC loan amount is higher than the amount used in the original Round 1 loan application, because that amount was based on VHDA's then-maximum existing housing sales price of \$171,800, whereas VHDA's new maximum sales price for such housing (\$213,000) is adequate to cover the projected affordability of the City's average MIHP buyer. The VHDA sales price increase is not expected to affect the average income of MIHP buyers because the City has allowed such buyers to purchase homes up to \$225,000 (using non-VHDA loans) since May 2001.

Round 2 SPARC Application: VHDA is accepting applications for a second round of funding under the SPARC program to provide a flexible first-trust financing source to allow local jurisdictions to address locally-identified critical housing issues. The financing will be awarded on a competitive basis and will provide first-trust mortgage financing at a rate which is 1/2% to 1% below the rate for the VHDA first-time home buyer program. The actual rate is subject to fluctuation. As of November 7, the VHDA first-time home buyer rate was 5.375%, which

translates into a SPARC rate possibly as low as 4.375%. During the first quarter of the City's FY03, the first-time homebuyer rate has been as low as 4.725%, which would translate to a SPARC rate as low as 3.725% applying a full percentage point discount.

By December 6, the City proposes to submit a request to VHDA for a set-aside of \$1,719,480 in SPARC funding to provide first trust loans to a minimum of fifteen (15) first-time home buyers who are participating in the City HAP program. This funding request is based on a home purchase price affordable to a household with an income of \$36,871, the average income for HAP purchasers during the most recent 16 month period. It is expected that these households may qualify to purchase a home with a sales price of \$144,050, of which \$114,632 is expected to be provided through SPARC funds (See Attachment II). In addition, these participants will also be eligible to receive as much as \$35,000 in downpayment and closing cost assistance funds from the City. By targeting SPARC first-trust assistance to low income households eligible for HAP loans, the range of housing affordable to these households can be expanded and monthly housing costs can be stabilized. Of recent HAP program participants, 93% had incomes at or below 60% of the area median family income. Although HAP participants can receive larger downpayment/closing cost subsidies from the City than MIHP participants, their SPARC first trust amounts are lower, reflecting the amount for which they can qualify in light of their lower incomes. As under HAP and MIHP, SPARC applicants will be required to purchase within the City of Alexandria.

In the second round of SPARC funding, VHDA has established priority categories which are highlighted in the City's application. These priorities are consistent with the City's goals for expanding homeownership to households with incomes at 60% of the area median income or less, and increasing homeownership among the City's minority populations. VHDA also places a high priority on assistance to new immigrants and special needs populations. The application presents the City's successful history in serving all of these populations and the anticipated critical role of SPARC funds in reducing the monthly housing costs of ownership housing for lower income populations.

SPARC program applications are to be ranked by VHDA, in part, according to the level of public and/or private funds that are allocated to the proposed activity. The City proposes to provide \$627,800 in leveraging funds from the following sources: 1) downpayment assistance using Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) monies; 2) homeownership education and counseling using Housing Trust Fund monies; 3) seller's incentive funds using Housing Trust Fund monies; and 4) home buyer downpayment and closing cost contributions. All City funds used in this project will come from existing funding budgeted in the Homeownership Assistance Program (HAP). The total non-VHDA funding for this project equals approximately 36% of the total request to VHDA.

As noted in the previous section, the City proposes, with VHDA's approval, to continue to administer Round 1 SPARC activities. Should the remaining Round 1 monies be recaptured, the application requests an additional \$2,563,730 (for a total of \$4,283,210) to assist 13 households in Round 1 employee target groups.

In the Round 1 SPARC application, the Office of Housing's normal requirement that program participants either have lived or worked in the City for six months was waived for SPARC participants (eligible government and school employees and employees of participating EAH employers). For Round 2 SPARC participants, this waiver will continue to apply to government, school and EAH employees, but will not apply to other HAP-eligible recipients.

FISCAL IMPACT: Potential VHDA allocation of up to \$1,719,480 for 15 households which will also be assisted under the City's HAP program, and potential additional allocation of up to \$2,563,730 for 13 households which will also be assisted through the City's existing Moderate Income Homeownership Program (MIHP) program for continuation of activities initially funded in Round 1. These SPARC funds will be made available by a VHDA lender on the client's behalf at settlement, and will not pass through the City Treasury. For 15 SPARC households receiving assistance under the Homeownership Assistance Program (HAP), staff estimates an expenditure of up to \$525,000 in previously budgeted HAP monies, \$57,800 in budgeted Homeownership Education and Counseling costs, \$15,000 in budgeted Seller's Incentive funds, and \$30,000 from homebuyer down payment and closing cost contributions. For 13 SPARC households receiving assistance under the MIHP, staff estimates an expenditure of up to \$260,000 in previously budgeted MIHP funds, \$53,200 in budgeted Homeownership Education and Counseling Costs, \$4,600 in employer-funded Homeownership Education and Counseling costs, \$13,000 in budgeted Seller's Incentive Funds, and \$26,000 in homebuyer and employer downpayment and closing cost contributions.

ATTACHMENTS:

- I. SPARC Round 2 Summary of Typical Home Purchase Transaction - MIHP
- II. SPARC Round 2 Summary of Typical Home Purchase Transaction - HAP

The grant applications may be viewed in the Office of Management and Budget or the Office of Housing.

STAFF:

Mildrilyn Stephens Davis, Director, Office of Housing
Robert Eiffert, Deputy Director, Office of Housing
Shane Cochran, Division Chief, Program Implementation Division, Office of Housing
Carol Moore, Acting Deputy Director, Office of Management and Budget
Paul Doku, Budget Analyst, Office of Management and Budget

**Summary of
Typical
Home
Purchase
Transaction**

To the extent possible, provide the following information for a typical home purchase transaction you envision in your proposed project. If there are several different types of financing structures anticipated to be used in your project, then complete a copy of this form for each different type of financing structure.

1. Annual Home Buyer Income	\$ <u>57,327</u>
2. Home Purchase Costs	
a. Sales price of typical home	\$ <u>209,200</u>
b. Anticipated closing costs	\$ <u>11,011</u>
c. Total cost of purchase	\$ <u>220,210</u>
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ <u>197,210</u>
Source: <u>VRDA</u>	
Interest rate: <u>5.25</u>	
Term: <u>30 year</u>	
b. Second Mortgage →	\$ <u>20,000</u>
Source: <u>MIHP</u>	
Interest rate: <u>0%</u>	
Term: <u>99 yr: deferred payment</u>	
c. Deferred Mortgage loan →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
d. Forgivable loan or grant →	\$ <u>3,000</u>
Source: _____	
Lien position: <u>1st</u>	
e. Home buyer cash →	\$ _____
f. Other Funds →	\$ _____
Type: _____	
Source: _____	
Total funds to cover purchase →	\$ <u>220,210</u>
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ <u>1,089</u>
b. Monthly escrow	\$ <u>440</u>
c. Total mortgage payment	\$ <u>1,529</u>

*Monthly escrow amount includes property taxes, insurance, private mortgage insurance, and \$150 monthly condo fee.

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To the extent possible, provide the following information for a typical home purchase transaction you envision in your proposed project. If there are several different types of financing structures anticipated to be used in your project, then complete a copy of this form for each different type of financing structure.

1. Annual Home Buyer Income	\$ 36,871
2. Home Purchase Costs	
a. Sales price of typical home	\$ <u>144,050</u>
b. Anticipated closing costs	\$ <u>7,582</u>
c. Total cost of purchase	\$ <u>151,632</u>
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ <u>114,632</u>
Source: <u>VHDA SPARC</u>	
Interest rate: <u>5.25</u>	
Term: <u>30 Years</u>	
b. Second Mortgage →	\$ <u>35,000</u>
Source: <u>HAP</u>	
Interest rate: <u>0%</u>	
Term: <u>99yr. deferred payment</u>	
c. Deferred Mortgage loan →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
d. Forgivable loan or grant →	\$ _____
Source: _____	
Lien position: _____	
e. Home buyer cash →	\$ <u>2,000</u>
f. Other Funds →	\$ _____
Type: _____	
Source: _____	
Total funds to cover purchase →	\$ <u>151,632</u>
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ <u>633</u>
b. Monthly escrow	\$ <u>350</u>
c. Total mortgage payment	\$ <u>983</u>