

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 15, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: CONSIDERATION OF AN INCREASE IN THE MAXIMUM LOAN AMOUNT UNDER THE CITY'S HOMEOWNERSHIP ASSISTANCE PROGRAM (HAP)

ISSUE: City Council consideration of increasing the loan amounts available through the City's Homeownership Assistance Program (HAP).

RECOMMENDATION: That City Council approve an increase in the maximum loan amount in the City's Homeownership Assistance Program (HAP) to \$50,000.

BACKGROUND: In February 2002, City Council approved increases in the maximum homeownership assistance payments under the HAP and Moderate Income Homeownership Program (MIHP) programs to the current levels of \$35,000 and \$20,000 respectively. The reasons for this increase included the need to respond to the rapidly increasing cost of ownership housing in the City, the need to expand the number of homes within the range of affordability of HAP and MIHP households, and to facilitate the home buying process for low and moderate income homebuyers.

DISCUSSION: Since 2002, the City's assessments show an average increase of 45% for all residential units and an increase of 60% in the average assessments for condominium units, the largest source of affordable homeownership housing in the City.

At current prices, it is extremely difficult for low income households to locate affordable housing in the City. Increasing the HAP assistance level will increase the purchasing power of these households. In most circumstances, the increase from \$35,000 to \$50,000 will not be enough to make the difference between purchasing a condominium versus purchasing a townhouse. However, it can lower the income needed to achieve homeownership. The average sales price in the HAP program in FY 2004 to date is \$152,910. The annual income needed to afford that sales price, with a HAP loan at the current \$35,000 maximum, plus a first trust SPARC loan at 1/2% below regular VHDA financing, plus VHDA's Home Stride program (formerly called Home Stretch), is \$32,100. A \$50,000 HAP loan will lower the income needed to purchase the FY 2004 average HAP property to \$29,000. FY 2004 HAP incomes have ranged from \$27,139 (a 4 person household purchasing a \$139,900 unit with SPARC at 1% below regular VHDA rate and Home Stride) to \$50,107 (a 3 person household with 1% SPARC and Home Stride, purchasing at

\$159,000). Whether the increase in loan assistance actually lowers the bottom of the income range will depend on continued availability of units priced at or near the low end of the FY 2004 range, and will also depend on interest rates.

Staff is not recommending an increase in the MIHP loan amount at this time. The major issue in the MIHP program is not the amount of assistance, but the program's sales price limit of \$225,000. This is being addressed through an increase in the allowable sales prices (below).

In another effort to increase the effectiveness of the City's homeownership programs, staff has administratively adopted new sales price limits which will become effective on July 1, 2004. For the HAP program, the limit will be increased from \$225,000 to \$290,319, which is the current Federal Housing Administration (FHA) mortgage limit and the maximum home value allowed with HOME downpayment assistance. The increase will provide greater flexibility for program participants and broaden housing opportunities for these buyers. For the MIHP program, the limit will be increased from \$225,000 to \$370,800, which is the purchase price associated with the maximum conventional (as opposed to jumbo) loan of \$333,700 generally available to all borrowers along with a 10% downpayment. In this price range, the maximum MIHP loan (\$20,000) represents just over 5% of the sales price, although some of the loan could also be used for closing costs. With a 5% downpayment, at a 5 1/4% interest rate (which is the current 1/2% reduction SPARC rate), and a 35% front end ratio, a buyer at the maximum income of \$79,500 could afford a sales price of \$333,628. The recommended price will also accommodate households with personal savings to add to the City's assistance.

FISCAL IMPACT: Based on projected FY 2005 HAP activity of 25 loans, the recommended increase would add \$375,000 to the \$875,000 already budgeted in federal Community Development Block Grant and/or HOME Program funds for HAP in FY 2005. The increase is covered by projected carryover monies in that program.

STAFF:

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