

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 19, 2003

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 3 SPONSORING PARTNERSHIPS AND REVITALIZING COMMUNITIES (SPARC) PROGRAM

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

RECOMMENDATION: That City Council approve the submission of an application to VHDA for \$3,800,000 in SPARC Round 3 program funding for HAP and MIHP loan recipients.

BACKGROUND: VHDA has provided funding through the SPARC program on a calendar year basis for the past two years. For the current calendar year, the City received a total allocation of \$4,283,210, of which \$2,000,000 was provided at 1% below VHDA's loan rate and \$2,283,210, provided at 0.5% below this rate. The City targeted the 1% discounted funds to buyers participating in the City's HAP program and to lower income or larger households participating in the MIHP program. The 0.5% funds were to be allocated to the targeted public employee groups noted above. In May 2003, VHDA allowed the City to expand its use of the 0.5% funds to include any household meeting the City's MIHP program guidelines. VHDA will recapture any uncommitted SPARC funds on December 31, 2003.

DISCUSSION: As of October 31, 2003, the City has closed 17 HAP loans and 18 MIHP loans during the 2003 calendar year. SPARC funds have been expended or committed for a total of 25 of those loans through the date of this memo (15 HAP and 10 MIHP, including four MIHP loans to public or school employees). Of these 25 loans, 17 households received 1% SPARC funds totaling \$2,018,014¹ and eight households received 0.5% funds totaling \$1,070,600. The City's entire allocation of 1% funds has now been committed and staff anticipates that additional SPARC commitments of 0.5% funds totaling \$732,400 may be requested before the end of the calendar year. Therefore, in total, staff projects the commitment of \$3,821,014 or 89% of the City's 2003 allocation.

¹The expended amount of 1% SPARC funding exceeds the original allocation of \$2,000,000 by \$18,014. VHDA agreed to allocate supplemental funding to allow the completion of the City's final 1% SPARC loan.

The City's proposal requests \$3,800,000 for the following priority areas: (1) funding for low income participants in the HAP program (15 loans); (2) funding for moderate income participants in the MIHP program (10 loans); and (3) funding for a new initiative to provide HAP loans to 10 households that are residents of public housing to enable them to move into homeownership. This latter initiative is in furtherance of a commitment made by the City to help settle the lawsuit between the Alexandria Resident Council (ARC) and the Alexandria Redevelopment and Housing Authority (ARHA) concerning the Samuel Madden Homes redevelopment effort. The City will request that VHDA give priority 1% funding of \$2,366,625 to the City's HAP program, which serves the lowest income groups

The Round 3 SPARC request is based on anticipated home buyer incomes and purchase prices shown in Attachments I, II and III. As shown in the attachments, and assuming a household pays no more than 32% of its income in monthly housing payments (principal, interest, taxes, and condo fee), SPARC and HAP/MIHP funding would enable (a) a HAP participant earning \$39,225 to purchase a home priced up to \$145,500, (b) a public housing household earning \$25,000 a year to purchase a home priced up to \$114,250, and (c) a MIHP participant earning \$45,150 a year to purchase a home priced up to \$157,412. The HAP and MIHP examples are based on average sales prices in the HAP and MIHP programs in calendar year 2003. The public housing example is based on the maximum likely income of homeownership candidates, according to ARHA staff.

For 15 HAP program participants, an allocation of \$1,736,625 is being requested. For 10 public housing residents, staff has included a total SPARC allocation of \$630,000 which is based on an average household income of \$25,000 and an average SPARC loan amount of \$63,000. Assistance to public housing participants will be supplemented by a second trust loan of \$20,000 through VHDA's Home Stretch program. For 10 MIHP program participants, \$1,422,820 is being requested. The total funding request would be \$3,789,445, which staff has rounded to \$3,800,000.

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's maximum downpayment assistance of up to \$35,000 for HAP recipients and up to \$20,000 for MIHP recipients helps in leveraging VHDA's funds, as does City funding provided for homebuyer education programs. The combination of these factors should strengthen the proposal and increase the amount of funding that Alexandria can receive at the full 1% discount rate. The City proposes to provide \$1,269,740 in leveraging funds from the following sources: 1) downpayment assistance using Community Development Block Grant (CDBG), Home Investment Partnerships Program (HOME), and Housing Trust Fund 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. The total non-VHDA funding for this project equals approximately 30% of the total request to VHDA.

In Rounds 1 and 2 SPARC applications, the Office of Housing's normal requirement that program participants either have lived or worked in the City for six months was waived for eligible government and school employees and employees of participating Employer Assisted Housing employers. For Round 3 SPARC participants, this waiver will continue to apply to those employee groups, but will not apply to other recipients.

FISCAL IMPACT: Potential VHDA allocation of up to \$3,800,000 for first trust funding for low and moderate income homebuyers in the City. 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. Matching funds will be provided through already budgeted programs described above.

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

ATTACHMENTS:

- I. SPARC Round 3 Summary of Typical Home Purchase Transaction - HAP Participant
- II. SPARC Round 3 Summary of Typical Home Purchase Transaction - HAP Public Housing Participant
- III. SPARC Round 3 Summary of Typical Home Purchase Transaction - MIHP Participant

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
Bruce Johnson, 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.

HAP Participant	
1. Annual Home Buyer Income	\$ 39,225
2. Home Purchase Costs	
a. Sales price of typical home	\$ 145,500
b. Anticipated closing costs	\$ 7,275
c. Total cost of purchase	\$ 152,775
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ 115,775
Source: <u>VHDA SPARC</u>	
Interest rate: <u>4.75%</u>	
Term: <u>30 year</u>	
b. Second Mortgage →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
c. Deferred Mortgage loan →	\$ 35,000
Source: <u>HAP</u>	
Interest rate: <u>0%</u>	
Term: <u>99 yr. deferred payment</u>	
d. Forgivable loan or grant →	\$ _____
Source: _____	
Lien position: _____	
e. Home buyer cash →	\$ 2,000
f. Other Funds →	\$ _____
Type: _____	
Source: _____	
Total funds to cover purchase →	\$ 152,775
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 604
b. Monthly escrow	\$ 442 *
c. Total mortgage payment	\$ 1,046

* Monthly escrow amount includes property taxes, insurance, private mortgage insurance, and \$250 monthly condo fee. Reflects a 32% monthly housing cost to income ratio.

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.

Public Housing HAP Participant	
1. Annual Home Buyer Income	\$ 25,000
2. Home Purchase Costs	
a. Sales price of typical home	\$ 114,250
b. Anticipated closing costs	\$ 5,750
c. Total cost of purchase	\$ 120,000
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ 63,000
Source: <u>VHDA SPARC</u>	
Interest rate: <u>4.75%</u>	
Term: <u>30 yr.</u>	
b. Second Mortgage →	\$ 20,000
Source: <u>VHDA HomeStretch</u>	
Interest rate: <u>5%</u>	
Term: <u>3 yr. deferred payment/interest</u>	
c. Deferred Mortgage loan →	\$ 35,000
Source: <u>HAP</u>	
Interest rate: <u>0%</u>	
Term: <u>99 yr. deferred payment</u>	
d. Forgivable loan or grant →	\$ _____
Source: _____	
Lien position: _____	
e. Home buyer cash →	\$ 2,000
f. Other Funds →	\$ _____
Type: _____	
Source: _____	
Total funds to cover purchase →	\$ 120,000
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 328
b. Monthly escrow	\$ 339*
c. Total mortgage payment	\$ 667

* Monthly escrow amount includes property taxes, insurance, private mortgage insurance, and \$250 monthly condo fee. Reflects a 32% monthly housing cost to income ratio.

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.

MIHP Participant	
1. Annual Home Buyer Income	\$ 45,150
2. Home Purchase Costs	
a. Sales price of typical home	\$ 157,412
b. Anticipated closing costs	\$ 7,870
c. Total cost of purchase	\$ 165,282
3. Funds to Cover Home Purchase	
a. First Mortgage	\$ 142,282
Source: <u>VHDA SPARC</u>	
Interest rate: <u>4.75%</u>	
Term: <u>30 year</u>	
b. Second Mortgage	\$
Source: _____	
Interest rate: _____	
Term: _____	
c. Deferred Mortgage loan	\$ 20,000
Source: <u>MIHP</u>	
Interest rate: <u>0%</u>	
Term: <u>99 yr, deferred payment</u>	
d. Forgivable loan or grant	\$
Source: _____	
Lien position: _____	
e. Home buyer cash	\$ 3,000
f. Other Funds	\$
Type: _____	
Source: _____	
Total funds to cover purchase	\$ 165,282
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 742
b. Monthly escrow	\$ 462 *
c. Total mortgage payment	\$ 1,204

* Monthly escrow amount includes property taxes, insurance, private mortgage insurance, and \$250 monthly condo. fee. Reflects a 32% monthly housing cost to income ratio.