

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 10, 2004

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 4 SPONSORING PARTNERSHIPS AND REVITALIZING COMMUNITIES (SPARC) PROGRAM AND ROUND 2 OF THE HOME STRIDE PROGRAM

ISSUE: Consideration of City application to the Virginia Housing Development Authority (VHDA) for funding under the SPARC and Home Stride Programs.

RECOMMENDATION: That City Council approve the submission of an application to VHDA for the following:

- (1) \$7,800,000 in SPARC Round 4 program funding to provide first-trust, low-interest, mortgage financing for participants in the City's Homeownership Assistance Program (HAP) and Moderate Income Homeownership Program (MIHP); and
- (2) \$1,000,000 in Home Stride program funding for second-trust, deferred interest, deferred payment financing for HAP and MIHP loan recipients, as well as City and Alexandria City Public School employees who meet Home Stride requirements but do not necessarily use or qualify for HAP and MIHP.

BACKGROUND: VHDA has provided funding through the SPARC program on a calendar year basis for the past three years. For the current calendar year, the City received a total SPARC Round 3 allocation of \$3,800,000, of which \$1,000,000 was provided at 1% below VHDA's loan rate and \$2,800,000 was provided at 0.5% below this rate. The City targeted the 1% discounted funds to buyers participating in the City's HAP program while the 0.5% funds were allocated on an as-needed basis to HAP and MIHP participants. The City obligated all available Round 3 SPARC program funds by August 2004 (eight months) and assisted a total of 30 households.

The Home Stride program (originally called "Home Stretch") was funded by VHDA in July 2003 as a pilot program to serve Northern Virginia jurisdictions only. Each jurisdiction received an initial allocation of \$750,000 to provide households up to \$20,000 in deferred payment, deferred interest second trust loans. Each jurisdiction was asked to establish local priorities for the use of Home Stride funds. The City established priority categories consistent with the HAP and MIHP programs and also targeted assistance to public employees, including such employees whose

incomes are within Home Stride levels (\$104,400 for a one person household and \$130,500 for a two or more person household) but above the maximum MIHP income levels (\$68,700 for a one or two person household and \$79,500 for a three or more person household). During the first 14 months of the program, the City requested and received two additional Home Stride allocations of \$250,000 each and expended or committed a total of \$1,254,250 to assist 65 first-time homebuyers in 14 months.

DISCUSSION - SPARC: The City assisted a total of 35 households, including two Section 8 voucher holders, with SPARC funds during the 2004 program year. Of these, three HAP and two MIHP households received SPARC Round 2 funding from the previous year, while the rest received SPARC Round 3 funding. The final Round 3 SPARC loan involves a unit currently under construction (at The Preston Condominium) that is expected to be ready for closing in December 2004 or January 2005. The City expended \$1,070,350¹ in 1% SPARC Round 3 funds to assist 10 HAP households and expended or committed \$2,823,550 in 0.5% SPARC funds to assist 20 households (11 HAP and 9 MIHP).

Due to higher than anticipated loan activity combined with higher average first trust loan amounts during calendar year 2004, the City is increasing its SPARC request for 2005 from \$3.8 million to \$7.8 million. The SPARC Round 4 monies will provide need-based assistance to 25 low income households in the HAP program and 25 moderate income households in the MIHP program. As noted in the application, staff anticipates that six of these households will be public housing residents or Section 8 voucher holders who will receive additional assistance through a faith-based partnership with Shiloh Federal Credit Union. Shiloh administers an individual development account (IDA) program that matches participant savings (\$4 for each \$1 saved, up to \$4,000).

The Round 4 SPARC request is based on anticipated home buyer incomes and average 2004 purchase prices in the HAP and MIHP programs, as shown in Attachments I and II. The calculations assume a household pays no more than 32% of its income in monthly housing payments (principal, interest, taxes, and condo fee). In order to serve 25 HAP program participants (the participants with the lowest incomes), staff recommends that the City request an allocation of \$3,215,000 at 1% below VHDA's normal loan rate. For 25 MIHP program participants (participants with moderate incomes), staff proposes an allocation of \$4,585,225 at 0.5% below VHDA's normal rate. The total SPARC funding request would be \$7,800,225, which staff has rounded to \$7,800,000.

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 \$50,000 for HAP recipients and up to \$20,000 for MIHP

¹The expended amount of SPARC funding slightly exceeds the original allocations as VHDA agreed to allocate supplemental funding to allow the completion of the City's final SPARC loans using both 1% and 0.5% funds.

recipients helps in leveraging VHDA's funds, as does City funding provided for homebuyer education programs. Assistance provided to public housing and Section 8 households by Shiloh Federal Credit Union is also included in funding amounts to be used in leveraging VHDA funds. 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. Staff projects that the requested SPARC funding will leverage \$2,086,500 in non-VHDA monies 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) individual development accounts funded by Shiloh Federal Credit Union 4) seller's incentive funds using Housing Trust Fund monies; and 5) home buyer downpayment and closing cost contributions. The total non-VHDA funding for this project equals approximately 25% of the total request to VHDA.

Home Stride. This is the first year that VHDA has required the City to submit an application for funding under this program. As noted above, staff recommends that the City apply for an allocation of \$1,000,000 through this program. Staff will request that participating lenders target these funds to households with high housing cost-to-income (i.e., greater than 32%) or debt-to-income ratios, in order to reduce the mortgage principal to affordable levels. The Home Stride funds will be committed on an as-needed basis to households demonstrating such need, subject to the availability of funds. The requested Home Stride funding will assist a minimum of 50 homebuyer households during the 2005 calendar year.

FISCAL IMPACT: Potential VHDA allocation of up to \$7,800,000 for first trust financing and \$1,000,000 in second trust financing for low and moderate income homebuyers in the City. These SPARC and Home Stride funds will be made available by a VHDA lender on the client's behalf at settlement, and will not pass through the City Treasury. Leveraged City funds will be provided through already budgeted programs.

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

ATTACHMENTS:

Attachment I. SPARC Round 4 Summary of Typical Home Purchase Transaction - HAP Participant

Attachment II. SPARC Round 4 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

**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	\$ 37,680.00
2. Home Purchase Costs	
a. Sales price of typical home	\$ 172,000.00
b. Anticipated closing costs	\$ 8,600.00
c. Total cost of purchase	\$ 180,600.00
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ 128,600.00
Source: <u>VHDA SPARC</u>	
Interest rate: <u>4.000</u>	
Term: <u>30 years</u>	
b. Second Mortgage →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
c. Deferred Mortgage loan →	\$ 50,000.00
Source: <u>City of Alexandria HAP</u>	
Interest rate: <u>0.000</u>	
Term: <u>99 years deferred</u>	
d. Forgivable loan or grant →	\$ _____
Source: _____	
Lien position: _____	
e. Home buyer cash →	\$ 2,000.00
f. Other Funds →	\$ _____
Type: _____	
Source: _____	
Total funds to cover purchase →	\$ 180,600.00
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 613.00
b. Monthly escrow	\$ 382.00
c. Total mortgage payment	\$ 995.00

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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	\$ 50,280.00
2. Home Purchase Costs	
a. Sales price of typical home	\$ 196,580.00
b. Anticipated closing costs	\$ 9,829.00
c. Total cost of purchase	\$ 206,409.00
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ 183,409.00
Source: <u>VHDA SPARC</u>	
Interest rate: <u>4.000</u>	
Term: <u>30 years</u>	
b. Second Mortgage →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
c. Deferred Mortgage loan →	\$ 20,000.00
Source: <u>City of Alexandria MIHP</u>	
Interest rate: <u>0.000</u>	
Term: <u>99 years deferred</u>	
d. Forgivable loan or grant →	\$ _____
Source: _____	
Lien position: _____	
e. Home buyer cash →	\$ 3,000.00
f. Other Funds →	\$ _____
Type: _____	
Source: _____	
Total funds to cover purchase →	\$ 206,409.00
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 929.00
b. Monthly escrow	\$ 412.00
c. Total mortgage payment	\$ 1,341.00