

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 17, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: SUBMISSION OF APPLICATION FOR FUNDING TO THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY (VHDA) FOR THE ROUND 5 SPONSORING PARTNERSHIPS AND REVITALIZING COMMUNITIES (SPARC) PROGRAM

---

**ISSUE:** Consideration of City application to the Virginia Housing Development Authority (VHDA) for funding under the SPARC Program.

**RECOMMENDATION:** That City Council approve the submission of an application to VHDA for \$18.1 million in SPARC Round 5 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).

**BACKGROUND:** VHDA has provided funding through the SPARC program on a February to January allocation basis for the past four years. For the current year, the City received a total SPARC Round 4 allocation of \$7.8 million, of which \$5 million was provided at 1% below VHDA's loan rate and \$2.8 million 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% discounted funds were allocated on an as-needed basis to HAP and MIHP participants. The City obligated nearly all available Round 4 SPARC program funds by August 2005 (eight months) and assisted or committed assistance to a total of 41 households.

**DISCUSSION:** The following chart reflects City SPARC activity from July 1, 2004 to October 31, 2005. The City committed more than \$3.6 million in Round 4 SPARC resources to households who are purchasing condominiums which are under conversion and have not yet gone to settlement. These loans are reflected in the column Pending/Committed Loans. Approximately \$109,600 in 0.5% discounted SPARC funds remain uncommitted. Staff will request that VHDA supplement these funds with uncommitted SPARC funds from other jurisdictions to provide one additional 0.5% discounted loan prior to January 31, 2006.

---

**SPARC Assisted Households - July 1, 2004 to October 31, 2005**

	FY05 Loans Closed w/Round 3 SPARC Funds	FY05 Loans Closed w/Round 4 SPARC Funds	FY06 Loans Closed w/Round 4 SPARC Funds (as of 10/31/05)	Pending/Committed Loans w/Round 4 SPARC	TOTAL SPARC EXPENDITURES/COMMITMENTS
HAP Participants	11	12	4	8	35
MIHP Participants	5	4	1	12	22
1.0% Discounted SPARC Funds	\$0 <sup>1</sup>	\$2,117,541 (HAP) \$190,250 (MIHP)	\$606,900 (HAP) \$320,100 (MIHP)	\$1,370,875 (HAP) \$398,800 (MIHP)	\$4,095,316 (HAP) \$909,150 (MIHP)
0.5% Discounted SPARC Funds	\$1,471,435 (HAP) \$732,200 (MIHP)	\$0 (HAP) \$839,900 (MIHP)	\$0	\$1,850,420 (MIHP)	\$1,471,435 (HAP) \$3,422,520 (MIHP)
TOTAL SPARC EXPENDITURES/COMMITMENTS	\$2,203,635	\$3,147,691	\$927,000	\$3,620,095 (Committed/Pending)	\$9,898,421

With Round 5 of the SPARC Program, VHDA is converting the program to a fiscal year basis with the Round 5 program covering the seventeen month period from February 2006 to June 2007. For this reason, in combination with higher than anticipated loan activity and higher average first trust loan amounts during calendar year 2004, the City is increasing its SPARC request for Round 5 SPARC funding from \$7.8 million to \$18.1 million. The SPARC Round 5 monies will provide need-based assistance to 48 low income households in the HAP program and 45 moderate income households in the MIHP program. As noted in the application, staff anticipates that two of these households will be public housing residents or Section 8 voucher holders that receive additional assistance through a faith-based partnership with Shiloh Federal Credit Union.

The Round 5 SPARC request is based on average 2005 purchase prices in the HAP and MIHP programs and required incomes for each purchase, 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). It is recommended that the City apply for a total of \$18.1 million in SPARC loan funds from two separate SPARC programs. This request would include \$7.9 million at 1% below VHDA's normal low rate which will serve an estimated 48 HAP program participants (the participants with the lowest incomes). Also to be requested would be \$10.2 million at 0.5% below VHDA's normal loan rate which will serve an estimated 45 MIHP program participants (participants with moderate incomes).

---

<sup>1</sup>All Round 3 1% discount loans were closed in the first half of the calendar year, prior to the start of FY 2005.

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 \$30,000 for MIHP recipients (up to \$40,000 for buyers who are residents and purchasers of properties converting to condominium status) 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% discounted rate. Staff projects that the requested SPARC funding will leverage \$4.8 million 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) the City's Affordable Homeownership Preservation Grant Program from forgone City revenue 4) seller's incentive funds using Housing Trust Fund monies; and 5) home buyer downpayment and closing cost contributions. The total \$4.8 million in non-VHDA funding described above for this project equals approximately 27% of the total request to VHDA.

**FISCAL IMPACT:** Potential VHDA allocation of up to \$18.1 million for first trust financing 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 as a result will not pass through the City's budget and accounting systems. Leveraged City funds will be provided through existing programs.

The grant application is available for review in the Office of Housing.

**ATTACHMENTS:**

Attachment I. SPARC Round 5 Summary of Typical Home Purchase Transaction - HAP Participant  
Attachment II. SPARC Round 5 Summary of Typical Home Purchase Transaction - MIHP Participant

**STAFF:**

Mildrilyn Stephens Davis, 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.

<b>1. Annual Home Buyer Income</b>	\$ 45,564.00
<b>2. Home Purchase Costs</b>	
a. Sales price of typical home	\$ 206,000.00
b. Anticipated closing costs	\$ 10,300.00
c. Total cost of purchase	\$ 216,300.00
<b>3. Funds to Cover Home Purchase</b>	
<b>a. First Mortgage</b> →	\$ _____
Source: <u>1% SPARC</u>	
Interest rate: <u>4.250</u>	
Term: <u>30 years</u>	
<b>b. Second Mortgage</b> →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
<b>c. Deferred Mortgage loan</b> →	\$ 50,000.00
Source: <u>HAP</u>	
Interest rate: <u>0.000</u>	
Term: <u>99 years</u>	
<b>d. Forgivable loan or grant</b> →	\$ _____
Source: _____	
Lien position: _____	
<b>e. Home buyer cash</b> →	\$ 2,000.00
<b>f. Other Funds</b> →	\$ _____
Type: _____	
Source: _____	
<b>Total funds to cover purchase</b> →	\$ 216,300.00
<b>2. Monthly Financing Costs</b>	
a. Monthly P&I payment	\$ 808.00
b. Monthly escrow	\$ 407.00
c. Total mortgage payment	\$ 1,215.00

**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.

<b>1. Annual Home Buyer Income</b>	\$ 60,900.00
<b>2. Home Purchase Costs</b>	
a. Sales price of typical home	\$ 247,773.00
b. Anticipated closing costs	\$ 12,389.00
c. Total cost of purchase	\$ 260,162.00
<b>3. Funds to Cover Home Purchase</b>	
<b>a. First Mortgage</b> →	\$ _____
Source: <u>.5% SPARC</u>	
Interest rate: <u>4.750</u>	
Term: <u>30 years</u>	
<b>b. Second Mortgage</b> →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
<b>c. Deferred Mortgage loan</b> →	\$ 30,000.00
Source: <u>MIHP</u>	
Interest rate: <u>0.000</u>	
Term: <u>99 years</u>	
<b>d. Forgivable loan or grant</b> →	\$ _____
Source: _____	
Lien position: _____	
<b>e. Home buyer cash</b> →	\$ 3,000.00
<b>f. Other Funds</b> →	\$ _____
Type: _____	
Source: _____	
<b>Total funds to cover purchase</b> →	\$ 260,162.00
<b>2. Monthly Financing Costs</b>	
a. Monthly P&I payment	
b. Monthly escrow	\$ 1,185.00
c. Total mortgage payment	\$ 439.00
	\$ 1,624.00

5