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**MEMORANDUM**

DATE: APRIL 2, 2007

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 6 SPONSORING PARTNERSHIPS AND REVITALIZING COMMUNITIES (SPARC) PROGRAM

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**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 \$19,900,000 in SPARC Round 6 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:** The City has received more than \$32 million in below-market rate mortgage financing through VHDA's SPARC program since 2002, which has served 173 households. VHDA provided \$12 million in funding to the City through Round 5 of the SPARC program for the 18-month period from January 2006 through June 2007. The majority of these funds were fully committed to income-eligible, first-time homebuyers within six months of release of the allocation. In Round 5 of the SPARC program, the City received \$5 million at 1% below VHDA's loan rate and \$7 million 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. During 2006, the HAP Program served households with incomes of up to \$59,600 (four person household), while the MIHP Program served households with incomes of up to \$90,300 (household of three or more). Income limits for both programs are adjusted based on family size.<sup>1</sup>

The City received a supplemental allocation of \$5 million in SPARC funds in January 2007, of which \$2.35 million has now been committed. Of this amount, \$1.9 million was committed within

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<sup>1</sup>New income limits which were effective on March 22, 2007 increased the four person HAP program limit to \$60,000 and the MIHP four person income limit to \$94,500.

one of month of the release of these funds. This supplemental allocation is being made available on an as-needed basis to both HAP and MIHP program participants and must be fully committed by June 30, 2007. The City has assisted or committed assistance to a total of 75 households through the Round 5 allocations and expects to assist an additional 28 households through uncommitted supplemental 0.5% discounted Round 5 funding.

**DISCUSSION:** The following chart reflects City SPARC activity from July 1, 2006 to March 21, 2007.

**SPARC Assisted Households - July 1, 2006 to March 22, 2007**

	FY06 Loans Closed w/Round 4 SPARC Funds	FY06 Loans Closed w/Round 5 SPARC Funds	FY07 Loans Closed w/Round 5 SPARC Funds	Pending/Committed Loans w/Round 5 SPARC	TOTAL SPARC EXPENDITURES/COMMITMENTS
HAP Participants	8	11	18	4	41
MIHP Participants	11	30	7	5	53
1.0% Discounted SPARC Funds	\$1,220,825 (HAP) \$489,000 (MIHP)	\$1,918,660 (HAP) \$559,200 (MIHP)	\$2,746,910 (HAP) \$194,310 (MIHP)	\$102,700 (HAP) \$0 (MIHP)	\$5,989,095 (HAP) \$1,242,510 (MIHP)
0.5% Discounted SPARC Funds	\$1,841,650 (MIHP)	\$0 (HAP) \$5,857,599 (MIHP)	\$514,000 (HAP) \$1,451,800 (MIHP)	\$681,000 (HAP) \$1,021,405 (MIHP)	\$1,195,000 (HAP) \$10,172,454 (MIHP)
TOTAL SPARC EXPENDITURES/COMMITMENTS	\$3,551,475	\$8,335,459	\$4,907,020	\$1,805,105 (Committed/Pending)	\$18,599,059

Round 6 of the SPARC Program will be the first year of VHDA's conversion to fiscal year (July - June) allocations. The Round 6 SPARC request is based on average City FY07 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). Staff recommends that the City request an allocation of \$5.0 million at 1% below VHDA's normal loan rate to serve 25 HAP households (the lowest income participants) and an allocation of \$14.9 million at 0.5% below VHDA's normal rate to serve 59 MIHP program participants (participants with moderate incomes). The recommended SPARC funding request is \$19,900,000.

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 \$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 \$3,476,800 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; and 4) home buyer downpayment and closing cost contributions. The total non-VHDA funding for this project equals approximately 17.5% of the total request to VHDA.

**FISCAL IMPACT:** Potential VHDA allocation of up to \$19,900,000 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 will not pass through the City Treasury. Leveraged City funds will be provided through existing programs.

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

**ATTACHMENTS:**

Attachment I. SPARC Round 6 Summary of Typical Home Purchase Transaction - HAP Participant  
Attachment II. SPARC Round 6 Summary of Typical Home Purchase Transaction - MIHP Participant

**STAFF:**

Mildrilyn Stephens Davis, Director, Office of Housing  
Helen McIlvaine, 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.

<b>1. Annual Home Buyer Income</b> HAP Participant	\$ 49,716.00
<b>2. Home Purchase Costs</b>	
a. Sales price of typical home	\$ 239,882
b. Anticipated closing costs	\$ 11,994
c. Total cost of purchase	\$ 251,876
<b>3. Funds to Cover Home Purchase</b>	
<b>a. First Mortgage</b> →	\$ 174,876
Source: <u>1% SPARC</u>	
Interest rate: <u>4.5%</u>	
Term: <u>30 years</u>	
<b>b. Second Mortgage</b> →	\$ 25,000
Source: <u>Home Stride</u>	
Interest rate: <u>Deferred 5%</u>	
Term: <u>27 years</u>	
<b>c. Deferred Mortgage loan</b> →	\$ 50,000
Source: <u>HAP</u>	
Interest rate: <u>0.0%</u>	
Term: <u>99 years</u>	
<b>d. Forgivable loan or grant</b> →	\$ _____
Source: _____	
Lien position: _____	
<b>e. Home buyer cash</b> →	\$ 2,000
<b>f. Other Funds</b> →	\$ _____
Type: _____	
Source: _____	
<b>Total funds to cover purchase</b> →	\$ _____
<b>2. Monthly Financing Costs</b>	
a. Monthly P&I payment	\$ 886.00
b. Monthly escrow *	\$ 440.00
c. Total mortgage payment	\$ 1,326.00
*Includes \$250 monthly condo fee	

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<b>1. Annual Home Buyer Income</b> MIHP Participant	\$	64,128.00
<b>2. Home Purchase Costs</b>		
a. Sales price of typical home	\$	271,991.00
b. Anticipated closing costs	\$	13,560.00
c. Total cost of purchase	\$	285,551.00
<b>3. Funds to Cover Home Purchase</b>		
<b>a. First Mortgage</b> →	\$	232,551.00
Source: <u>0.5% SPARC</u>		
Interest rate: <u>5.0%</u>		
Term: <u>30 years</u>		
<b>b. Second Mortgage</b> →	\$	20,000.00
Source: <u>Home Stride</u>		
Interest rate: <u>Deferred 5%</u>		
Term: <u>27 years</u>		
<b>c. Deferred Mortgage loan</b> →	\$	30,000.00
Source: <u>MIHP</u>		
Interest rate: <u>0.0%</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> →	\$	285,551.00
<b>2. Monthly Financing Costs</b>		
a. Monthly P&I payment		
b. Monthly escrow *		
c. Total mortgage payment	\$	1,248.00
	\$	462.00
<b>*Includes \$250 monthly condo fee</b>	\$	1,710.00