

City of Alexandria, Virginia

11-14-06

MEMORANDUM

DATE: NOVEMBER 6, 2006  
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL  
FROM: JAMES K. HARTMANN, CITY MANAGER   
SUBJECT: CONSIDERATION OF REVISION TO HOME REHABILITATION LOAN PROGRAM TO INSTITUTE AN ANTI-SPECULATION POLICY

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**ISSUE:** Consideration of proposed program amendment to the Home Rehabilitation Loan Program.

**RECOMMENDATION:** That City Council approve a change to the Office of Housing's Home Rehabilitation Loan Program (HRLP) to impose an anti-speculation surcharge of up to 25% of the City's loan amount on future loan funds provided through the HRLP.

**BACKGROUND:** The Home Rehabilitation Loan Program (HRLP) provides no-interest, deferred payment loans for the rehabilitation of owner-occupied homes, including condominiums. This program is funded with federal Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) monies, and eligible owners must have incomes within CDBG and HOME income limits, currently \$47,700 for a two-person household. Loan funds provided through the HRLP program are due in 99 years or upon resale of the property. The program has a loan limit of \$90,000 for construction costs, though this limit may be exceeded in order to accommodate extensive rehabilitation work required to meet federal lead-based paint regulations. In addition to construction costs, the total loan amount also includes costs associated with the temporary relocation of the homeowner during the rehabilitation, as well as all costs associated with printing, surveys, permits, termite, title and appraisal reports and recording fees. The current loan limit and lead-based paint exception were authorized by City Council in May 2001. The City pays the cost of architectural, engineering and associated fees outside of the loan as part of the program's administrative costs.

**DISCUSSION:** While the City imposes an anti-speculation surcharge on home purchase assistance loans provided through the Homeownership Assistance Program (HAP) and the Moderate Income Homeownership Program (MIHP) as a means of discouraging speculative home purchases using City assistance, no such surcharge is imposed to prevent speculative use of HRLP funds. In the HAP and MIHP programs, the anti-speculation surcharge begins at 25% if the unit is sold during the first year of ownership. The surcharge decreases by 5% in each subsequent year until reaching zero after year five.

One of the primary goals of the HRLP program is to preserve the City's existing housing stock and to improve housing conditions for lower-income City homeowners. It has been expected that the City-funded improvements would facilitate continued, affordable City residency for eligible households by providing access to interest-free home improvement financing. Given the increases in home prices over the past five years, staff is concerned that the HRLP program could be used as speculative resource to help owners sell their homes more quickly or to increase the resale price thereby making the unit less affordable to future buyers. The City requires that households receiving assistance through the HRLP program occupy the assisted property as their primary residence during the term of the loan. However, the HRLP program does not control the future re-sale price of the assisted unit. The proposed anti-speculation surcharge will create a disincentive for potential borrowers who do not intend to occupy the unit for at least five more years.

Of the 87 loan recipients from FY2000 through September 30, 2006, 77% are one- or two-person households and 44% are elderly. Households incomes range from \$7,706 to \$53,924 and average \$32,736. While the majority of HRLP program participants are long-term residents who often have a significant amount of equity in their homes, a number of recent loan recipients have sold or listed their homes for sale within five years of completion of the City-assisted rehabilitation work. Since the beginning of calendar year 2002, 16 households were found to have repaid HRLP loans within 5 years of loan closing. Of the 16 households, four (4) loans were repaid due to the death of the owner and resulting property sale, eight (8) were repaid in connection with the refinancing of the first trust loan, and four (4) loans were repaid by owners who sold the assisted property. Three of the four assisted units that were sold received HRLP assistance to mitigate lead-based paint and had loan amounts ranging from \$94,144 to \$140,529. Sales prices for the four units ranged from \$241,000 to \$570,000 (with all three lead-based paint units in the \$500,000s).

The proposed surcharge will be imposed only in cases in which the homeowner sells the property within five (5) years from the date of loan closing. The surcharge will begin at 25% of the City's loan amount during the first year and will decrease by 5% in each subsequent year until reaching zero. The City's deed of trust will provide for a waiver of the surcharge under specific circumstances including a property sale resulting from a change in the household size with overcrowded conditions in the assisted property, an out-of-area job transfer, a change in the householder's health requiring a change in housing, or the death of the homeowner. Requests for a waiver of the anti-speculation surcharge must be submitted in writing to the Office of Housing and will be considered on a case-by-case basis.

**FISCAL IMPACT:** No fiscal impact.

**STAFF:**

Mildrilyn Stephens Davis, Director, Office of Housing

Helen McIlvaine, Deputy Director, Office of Housing

Shane Cochran, Program Implementation Division Chief, Office of Housing

Patrice McAuliffe, Rehabilitation Loan Coordinator, Office of Housing