EXHIBIT NO. 1

City of Alexandria, Virginia

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6-25-02

MEMORANDUM

DATE: JUNE 13, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: CONSIDERATION OF PROGRAMMATIC CHANGE ALLOWING CONVERSION OF HOME REHABILITATION LOAN ASSISTANCE TO HOMEOWNERSHIP ASSISTANCE

ISSUE: Consideration of proposed program amendments to the Home Rehabilitation Loan Program (HRLP).

RECOMMENDATION: That City Council:

(1) authorize the conversion of certain HRLP loans to become Homeownership Assistance Program (HAP) loans with the following conditions:

  (a) the homeowner must be income-eligible;
  (b) the home to be purchased must be located within the City of Alexandria;
  (c) the loan amount being converted to HAP assistance may not exceed the maximum assistance available under the HAP program;
  (d) participants who choose to convert their HRLP to HAP loans must offer their rehabilitated unit for sale for a period of six months exclusively to participants in the City's homeownership programs, with availability limited to HAP participants for the first three months of this period and opened up to Moderate Income Homeownership Program (MIHP) participants thereafter; and
  (e) the sales price of the unit must be limited to the maximum established for the City's homeownership programs; and

(2) remove the first-time homebuyer requirement of the HAP program, and exclude the home value from the calculation of net worth, for HRLP participants electing to convert a portion of their rehabilitation loans to homeownership assistance as described above.

BACKGROUND: Both the HRLP and the HAP program provide no-interest, 99-year deferred payment loans to income eligible applicants. These programs are funded with federal Community Development Block Grant (CDBG) and Home Investment Partnerships Program

(HOME) monies. The amount of assistance provided is recorded as a lien against the property and repayment is due upon resale, or in 99 years, whichever comes first.

The HRLP has a loan limit of $90,000 for construction costs, although this limit can be exceeded when necessary to comply with lead-based paint requirements in order to accommodate extensive rehabilitation work in compliance with recently enacted federal lead-based paint regulations. Loan-to-value ratios normally may not exceed 100% but may be allowed to reach110% to meet lead-based paint requirements. Loans are made for renovations to owner-occupied housing units located within the City limits. Approximately 67% of HRLP participants are elderly households and the average loan amount is $48,668. Taking into account non-construction costs such as relocation and storage expenses, total loan amounts in recent years (FY 2000 to present) have been as high as $91,000 without and $140,529 with lead-based paint work.

The HAP program provides up to $35,000 in down payment and closing cost assistance to income-eligible first-time home buyers purchasing homes within the City of Alexandria. City Council recently approved a program change to the homeownership programs allowing a one-time rollover of homeownership assistance to permit those participants continuing to meet income-eligibility requirements to use the assistance for a subsequent purchase within the City of Alexandria. The intent of this change was to provide an incentive for move-up buyers to retain their City residency by rolling over their purchase assistance.

DISCUSSION: The recommended amendments are proposed by staff to provide greater flexibility to HRLP participants while also securing additional homeownership opportunities for low-income first-time home buyers. As noted above, the majority of HRLP participants are elderly households who may, as their physical needs change, wish to find housing that is more accessible or which provides a greater level of personal security. Non-elderly HRLP households would also be eligible for the loan conversion.

Under the current structure of the HRLP program, a participant would have to repay the City's loan upon sale of their current home. After repaying the City's loan and any first trust balance, a HRLP participant who sells a rehabilitated unit may find affordable homeownership opportunities in the City to be limited. The proposed amendment would serve as an incentive for eligible participants who elect to move from the current residence to remain in the City as opposed to moving out of the City for lower housing prices. In order to use the conversion element of the HRLP program, a household must meet all HAP eligibility requirements, with the exception of the first-time homebuyer requirement. In addition, the value of the rehabilitated home would be excluded from the household's net worth for the purposes of determining income eligibility for the conversion. Staff also recommends that households be allowed to roll over only the amount of the maximum HAP loan (currently $35,000), and be required to repay any remaining rehabilitation loan amount in excess of this limit.

The eligible property owner would be required to market the current home exclusively to participants in the City's homeownership programs for a period of six months, and exclusively to HAP participants for the first three months of this period. This amendment to the program guidelines would provide a new homeownership opportunity for the buyer of the rehabilitated property, maintain the affordability of housing rehabilitated with HRLP funds, and enable income-eligible homeowners whose needs have changed to purchase more suitable housing and to retain their City residency.

While it is unclear how many HRLP participants may wish to take advantage of this program change, there are currently 133 outstanding HRLP loans, many of which are likely to be in the target sales price range. As an example of an actual case to which the recommended loan conversion might be applied, an elderly HRLP participant has requested that her $31,000 HRLP loan be forgiven so that she may purchase a condominium that she believes would better meet her lifestyle needs and provide her a greater sense of security. While the City does not allow forgiveness of HRLP loans, the recommended loan conversion provision would accomplish the same goal and make it easier for the participant to remain a City resident. Based on the participant's income, outstanding first trust loan, and projected cash from the sale of the rehabilitated unit, it is expected that without the recommended loan conversion, she may qualify to purchase a unit costing $115,300 using the remaining sales proceeds as down payment, taking into account a $180 monthly condominium fee. A $35,000 loan, through the recommended loan conversion, would expand the purchase options available to this individual within the City.

Staff believes the recommendation would also benefit other elderly households who may wish to relocate due to health concerns, financial considerations and property maintenance issues. The loan conversion would be similarly beneficial to non-elderly rehabilitation loan recipients whose needs have changed. In both instances, the $225,000 sales price and six-month restriction of buyers to homeownership program participants is expected to result in a homeownership opportunity for a HAP or MIHP recipient that would likely not otherwise exist in the current housing market.

Because the majority of HRLP clients are elderly homeowners who are often on fixed incomes, the average income of participants is lower than in the HAP program ($22,380 for HRLP compared to $34,519 for HAP for fiscal years FY01 and FY02 to date), and a large cash investment may be necessary to compensate for the limited mortgage amounts that their incomes will support. Because the sales price of the rehabilitated unit will be limited to the maximum sales price under the City's homeownership programs (currently $225,000), owners of homes valued higher than this amount will not be able to take advantage of the conversion but would likely receive a significant amount of cash upon resale due to the value of their homes. Even at the $225,000 sales price, some owners, particularly those who have paid off their purchase mortgages, may receive significant proceeds of sale and may not need the HAP loan conversion. However, even in such cases, staff believes that the possibly unnecessary deferral of program income revenue from the HRLP program is outweighed by the opportunity for exclusive marketing of the affordable sales unit to HAP and (if necessary) MIHP participants.

Under the previously approved rollover provision for homeownership programs, if a HAP eligible household has experienced an increase in income but remains qualified for assistance under the City's Moderate Income Homeownership Program (MIHP), the household may convert the HAP loan to a MIHP loan. A recommendation to extend the HRLP loan rollover to households meeting the MIHP income limits may be forthcoming after consideration by the Affordable Housing Advisory Committee (AHAC). This would require the disbursement of Housing Trust Fund monies which fund the MIHP assistance program, because federal income limits would preclude the issuance of a HAP loan to a MIHP-eligible household.

FISCAL IMPACT: Delayed receipt of revenue of $35,000 for every HAP-eligible household that takes advantage of the loan conversion upon resale. Staff is unable to predict the likely number of participants. For HRLP participants who take advantage of this change, the City will record HRLP loans as satisfied debts and will, in turn, issue new loan documents under the HAP program with no additional disbursement of funds. No increases to either program budget are required.

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