

City of Alexandria, Virginia

MEMORANDUM

DATE: AUGUST 24, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

SUBJECT: RATIFICATION OF SUBMISSION OF AN APPLICATION TO THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY (VHDA), FOR THE ROUND EIGHT (FY 2010) SPONSORING PARTNERSHIPS AND REVITALIZING COMMUNITIES (SPARC) PROGRAM

ISSUE: Ratification of submission of an application to the Virginia Housing Development Authority (VHDA), for the Round Eight (FY 2010) Sponsoring Partnerships and Revitalizing Communities (SPARC) Program.

RECOMMENDATION: That City Council ratify the submission of an application to VHDA for \$7,700,000 for the SPARC Round Eight 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). Because of a one-time change in the funding cycle for Round Eight, applications were due to VHDA by August 14, 2009. The Office of Housing prepared, the City Manager authorized, and the City submitted the application by VHDA's due date and is now requesting that City Council ratify this application. The City has applied for and been awarded SPARC funds each year of the program's seven year history. A copy of this application is on file in the Office of Housing.

The City is requesting an allocation of \$7.7 million at 0.5% below VHDA's normal loan rate to serve 41 households. VHDA is not offering SPARC funds at a 1% discounted rate as in the past. The requested funding level, approximately half as much as was received in Round Seven, reflects the reduced funding levels for the City's HAP and MIHP Programs for FY 2010 as well as the shorter nine month funding cycle (October 1, 2009 to June 30, 2010) for Round Eight of the program. This request also reflects the possibility of additional funding for the HAP and MIHP Programs that may become available through a competitive application for Neighborhood Stabilization Program (NSP-2) funds. Announcements of awards under NSP-2 are expected in December 2009.

BACKGROUND: The City has:

- Received more than \$62.2 million in below-market rate mortgage financing from VHDA-SPARC grant since 2002 with 339 households served through August 15, 2009.
- Served households through the HAP Program with incomes up to 80% of the HUD area median income¹ (currently \$64,000 for a four person household), while the MIHP Program served households with incomes up to the HUD area median income (currently \$102,700). Income limits for both programs are adjusted based on family size.
- Received \$15.2 million in Round Seven (FY 2009); \$11.6 million of these funds have been expended to date to assist 68 income-eligible, first-time homebuyers; \$3.5 million at 1% below VHDA's loan rate and \$9.4 million at 0.5% below this rate. It is anticipated that all funds will be committed by September 30, 2009.

DISCUSSION: The following chart reflects the City's SPARC activity from July 1, 2008, to August 15, 2009.

SPARC ASSISTED HOUSEHOLDS - JULY 1, 2008 to AUGUST 15, 2009

	FY 2009 Loans Closed w/Round 6 SPARC Funds	FY 2009 Loans Closed w/Round 7 SPARC Funds	FY 2010 Closed/ w/Round 7 SPARC	TOTAL SPARC ACTIVITY
HAP Participants	6	43	4	53
MIHP Participants	3	19	6	28
1.0% Discounted SPARC Funds	\$711,500 (HAP)	\$2,698,100 (HAP)	\$223,800 (HAP)	\$3,633,400 (HAP)
0.5% Discounted SPARC Funds	\$134,900(HAP) \$520,370 (MIHP)	\$ 2,906,050 (HAP) \$4,520,948 (MIHP)	\$145,000 (HAP) \$1,153,812 (MIHP)	\$3,185,950 (HAP) \$6,195,130 (MIHP)
TOTAL SPARC EXPENDITURES	\$1,366,770	\$10,125,098	\$1,522,612	\$13,014,480

Three additional SPARC loan commitments totaling \$492,583 in 0.5% SPARC were pending but not yet closed as of August 15, 2009. As noted earlier, VHDA will not be offering 1% SPARC during Round Eight of the SPARC Program. The City's Round Eight SPARC request is based on average City FY 2009 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, insurance and condo fee).

¹ Beginning with the City's FY2009, the HAP income limits increased from the adjusted Department of Housing and Urban Development (HUD) 80% of area median income (capped at the national median in certain high cost areas including the Washington D.C. area) to the mathematical 80% of the local area median. This change was requested and approved by HUD through the City's FY2009 Action Plan process.

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, which include individual budgeting and financial management training. The combination of these factors, as well as the City's proactive marshalling of NSP and set-aside sales unit resources, should strengthen the proposal's competitiveness and increase the likelihood that the City's request will be fully funded.

FISCAL IMPACT: None to the City, as SPARC funds do not pass through the City treasury, but are made available by a VHDA lender on the client's behalf at settlement. Up to \$7,700,000 will be provided for first trust financing for low- and moderate-income homebuyers in the City. Leveraged City funds will be provided through existing programs. The total non-VHDA funding to be leveraged for this initiative is estimated to equal approximately 21.1% of the total SPARC request. It is estimated that SPARC funding will leverage \$1,376,000 in non-VHDA monies from the following sources:

- Down payment assistance using Community Development Block Grant (CDBG), Home Investment Partnerships Program (HOME), and Housing Trust Fund monies; (\$1,120,000)
- Downpayment assistance using Neighborhood Stabilization Program (NSP-2) monies (funding request is pending); (\$530,000)
- Homeownership education and counseling using Housing Trust Fund monies; and (\$150,000)
- Home buyer down payment and closing cost contributions. (\$106,000).

ATTACHMENTS:

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

Attachment II. SPARC Round Eight 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, Program Implementation Division Chief, 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.

HAP Program Participant

1. Annual Home Buyer Income	\$ 50,062
2. Home Purchase Costs	
a. Sales price of typical home	\$ 185,000
b. Anticipated closing costs	\$ 9,250
c. Total cost of purchase	\$ 194,250
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ 142,250
Source: _____	
Interest rate: _____	
Term: _____	
b. Second Mortgage →	\$ 50,000
Source: <u>HAP</u>	
Interest rate: <u>0%</u>	
Term: <u>99 year deferred</u>	
c. Deferred Mortgage loan →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
d. Forgivable loan or grant →	\$ _____
Source: _____	
Lien position: _____	
e. Home buyer cash →	\$ 2,000
f. Other Funds →	\$ _____
Type: _____	
Source: _____	
Total funds to cover purchase →	\$ 194,250
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 742
b. Monthly escrow	\$ 593
c. Total mortgage payment	\$ 1,335

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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.

MIHP Program Participant

1. Annual Home Buyer Income	\$ 69,835
2. Home Purchase Costs	
a. Sales price of typical home	\$ 241,000
b. Anticipated closing costs	\$ 12,050
c. Total cost of purchase	\$ 253,050
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ 220,050
Source: _____	
Interest rate: _____	
Term: _____	
b. Second Mortgage →	\$ 30,000
Source: _____	
Interest rate: _____	
Term: _____	
c. Deferred Mortgage loan →	\$ _____
Source: _____	
Interest rate: _____	
Term: _____	
d. Forgivable loan or grant →	\$ _____
Source: _____	
Lien position: _____	
e. Home buyer cash →	\$ 3,000
f. Other Funds →	\$ _____
Type: _____	
Source: _____	
Total funds to cover purchase →	\$ 253,050
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 1,148
b. Monthly escrow	\$ 714
c. Total mortgage payment	\$ 1,862