MEMORANDUM

DATE: OCTOBER 13, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: CONSIDERATION OF MODERATE INCOME HOMEOWNERSHIP PROGRAM BUDGET TRANSFER TO THE HOMEOWNERSHIP ASSISTANCE PROGRAM

ISSUE: Consideration of a budget transfer among housing assistance programs.

RECOMMENDATION: That City Council approve the transfer of $350,000 from the Moderate Income Homeownership Program to the Homeownership Assistance Program.

DISCUSSION: The Office of Housing is requesting the transfer of $350,000 from the Moderate Income Homeownership Program (MIHP) to the Homeownership Assistance Program (HAP). HAP provides loans of up to $50,000 for down payment and closing costs for lower income (up to 80 percent of area median income) City residents and workers who are first-time homebuyers, while MIHP offers up to $30,000 for households with incomes up to 100 percent of area median income. The loans in both programs are no-interest, 99-year deferred payment loans. As of FY 2010, both programs have included an equity sharing component that requires a future price discount from some of the potential appreciation for subsequent income-eligible buyers. Since the inception of the equity sharing component, MIHP loan activity has declined significantly. In FY 2009, the City approved 35 MIHP loans at a total cost of $832,049, while a total of only 20 loans totaling $448,977 have been approved in the two subsequent years. No loans have been approved to date in FY 2012. This lower level of activity has also been influenced by the much lower level of condo prices during the last few years, and lower mortgages interest rates, which has reduced the need for City assistance.

While MIHP applications have been limited in both FY 2011 and FY 2012 to date, participation in HAP remains extremely strong, with 14 loans committed during the first quarter of the City’s FY 2012 (July – September). The HAP budget was funded at $951,239 for this fiscal year, an amount adequate to fund 19 loans at the maximum loan amount. Of the budgeted amount, $698,500 has already been committed to eligible first-time homebuyers. Staff anticipates that the current funding will support the program only through October 2011, and the recommended

1 For a four-person household, the maximum HAP income limit is $84,800 and the MIHP limit is $106,100.
transfer is expected to support an additional three months of activity. This will be the second consecutive year in which demand exceeds the program budget in HAP. FY 2011 HAP activity was suspended in March 2011.

The recommended transfer of $350,000 from MIHP to HAP will help leverage favorable mortgage financing from the Virginia Housing Development Authority (VHDA). During City Council’s 2011 summer recess, staff submitted an application to participate in VHDA’s new low income, very low cost first trust homeownership funding program, called the Community Homeownership Revitalization Program (CHRP)², contingent on City Council’s ratification. On September 13, City staff was notified by VHDA that its application for funds in the amount of $900,000 was approved and City Council ratified the application to VHDA on September 27. By increasing the funding to HAP, the drawdown of these CHRP funds will be facilitated.

Given the lower activity levels in the MIHP Program, the proposed budget transfer is expected to have a limited impact on program participation during FY 2012. After the recommended $350,000 transfer to HAP, MIHP will retain a balance of $393,365, an amount adequate to assist a minimum of 13 income-eligible first-time homebuyers.

**FISCAL IMPACT:** All monies in these proposed transfers are included in the City’s approved FY 2012 budget. HAP has used federal housing monies, and MIHP has used locally raised Housing Trust Fund housing monies. With this transfer, MIHP will then be using Housing Trust Fund dollars.

**STAFF:**
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² CHRP is a more limited version of the old SPARC (Sponsoring Partnerships and Revitalizing Communities) Program in which the City participated for many years until its termination in December 2010.