


City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 2, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: CONSIDERATION OF SUBMISSION OF AN APPLICATION TO THE VIRGINIA HOUSING DEVELOPMENT AUTHORITY (VHDA), FOR THE ROUND SEVEN (FY 2009) SPONSORING PARTNERSHIPS AND REVITALIZING COMMUNITIES (SPARC) PROGRAM

ISSUE: Consideration of submission of an application to the Virginia Housing Development Authority (VHDA), for the Round Seven (FY 2009) Sponsoring Partnerships and Revitalizing Communities (SPARC) Program.

RECOMMENDATION: That City Council approve the submission of an application (due April 18, 2008) to VHDA for \$15,200,000 for the SPARC Round Seven 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).

The City is requesting an allocation of \$6.15 million at 1% below VHDA's normal loan rate to serve 35 HAP households (the lowest income participants) and an allocation of \$9.05 million at 0.5% below VHDA's normal rate to serve 35 MIHP program participants (participants with moderate incomes). The requested funding levels reflect the fact that MIHP Program participants require larger first trust loans than those in the HAP Program, and the fact that VHDA has designed the SPARC Program to ensure that the most deeply discounted funds are targeted to lower income households.

BACKGROUND: The City has:

- Received more than \$47 million in below-market rate mortgage financing from VHDA-SPARC grant since 2002; with 236 households served to date.
- Served households through the HAP Program with incomes up to Department of Housing and Urban Development (HUD) low-income income limits (currently \$61,500 for a four person household), while the MIHP Program served households with incomes up to the

HUD area median income (currently \$99,000). Income limits for both programs are adjusted based on family size.

- Received \$15 million in Round Six (FY 2008); \$11.8 million of these funds has been committed to date to assist 61 income-eligible, first-time homebuyers; \$7.5 million at 1% below VHDA's loan rate and \$7.5 million at 0.5% below this rate. It is anticipated that all funds will be committed by June 30, 2008.
- Set-aside one percent discounted funds for buyers participating in the City's HAP program, and 0.5% discounted funds were allocated on an as-needed basis to MIHP participants.

DISCUSSION: The following chart reflects the City SPARC activity from July 1, 2007 to March 22, 2008.

SPARC ASSISTED HOUSEHOLDS - JULY 1, 2007 to FEBRUARY 29, 2008

	FY 2007 Loans Closed w/Round 5 SPARC Funds	FY 2007 Loans Closed w/Round 6 SPARC Funds	Pending/ Committed Loans w/Round 6 SPARC	TOTAL SPARC Expenditures and Commitments
HAP Participants	4	20	4	28
MIHP Participants	6	32	5	43
1.0% Discounted SPARC Funds	0	\$3,037,891 (HAP) \$118,850 (MIHP)	\$440,465 (HAP)	\$3,478,356 (HAP) \$118,850 (MIHP)
0.5% Discounted SPARC Funds	\$474,454 (HAP) \$1,029,577 (MIHP)	\$6,731,413 (MIHP)	\$1,056,780 (MIHP)	\$474,454 (HAP) \$8,817,770 (MIHP)
TOTAL SPARC EXPENDITURES COMMITMENTS	\$1,504,031	\$9,888,154	\$1,497,245 (Committed/ Pending)	\$12,889,430

The Round Seven SPARC request is based on average City FY 2008 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).

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. A new element of the SPARC program allocates points for applicants that both require and provide funding for a home inspection. The cost of the home inspection can be included in the City's second trust loan provided through either the HAP or MIHP Program. 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's competitiveness and increase the amount of funding that the City can receive at the full 1% discounted rate.

Over the past four SPARC funding cycles, the City's application for funds also included a request for funding under the HomeStride Program, which offers deferred payment, deferred interest loans of up to \$25,000 to eligible households. Due to funding constraints in its taxable mortgage revenue bond financed programs, VHDA will not be offering HomeStride in FY09, but may be reactivate it in the future, as it was a highly successful program.

FISCAL IMPACT: None to the City. However, up to \$15,200,000 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 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 \$3,212,063 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; (\$2,920,000)
- Homeownership education and counseling using Housing Trust Fund monies; and (\$112,063)
- Home buyer down payment and closing cost contributions. (\$180,000)

ATTACHMENTS:

- I. SPARC Round Seven Summary of Typical Home Purchase Transaction - HAP Participant
- II. SPARC Round Seven 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
Valerie Salerno, Budget Analyst, Office of Management and Budget
Karen L. Winey, Grants Coordinator, Office of the City Manager

**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.

1. Annual Home Buyer Income	\$ 52,236
2. Home Purchase Costs	
a. Sales price of typical home	\$ 216,491
b. Anticipated closing costs	\$ 10,825
c. Total cost of purchase	\$ 227,316
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ 175,316
Source: _____	
Interest rate: _____	
Term: _____	
b. Second Mortgage →	\$ 50,000
Source: <u>HAP</u>	
Interest rate: <u>0.0%</u>	
Term: <u>99 years</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 →	\$ 227,316
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 928
b. Monthly escrow	\$ 465
c. Total mortgage payment	\$ 1,393

ATTACHMENT II

**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.

1. Annual Home Buyer Income	\$ 74,664
2. Home Purchase Costs	
a. Sales price of typical home	\$ 277,657
b. Anticipated closing costs	\$ 13,883
c. Total cost of purchase	\$ 291,540
3. Funds to Cover Home Purchase	
a. First Mortgage →	\$ 258,540
Source: _____	
Interest rate: _____	
Term: _____	
b. Second Mortgage →	\$ 30,000
Source: <u>MIHP</u>	
Interest rate: <u>Deferred 0.0%</u>	
Term: <u>99 years</u>	
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 →	\$ 291,540
2. Monthly Financing Costs	
a. Monthly P&I payment	\$ 1,448
b. Monthly escrow	\$ 543
c. Total mortgage payment	\$ 1,991