


## City of Alexandria, Virginia

## MEMORANDUM

DATE: MARCH 12, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: CONSIDERATION OF PROVIDING SUPPLEMENTAL FUNDING FROM DESIGNATED CONTINGENT RESERVES TO ASSIST PURCHASERS OF DISTRESSED PROPERTIES

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**ISSUE:** Consideration of providing supplemental funding from Contingent Reserves to the Homeownership Assistance Program (HAP) to assist purchasers of distressed properties.

**RECOMMENDATION:** That the City Council allocate \$200,000 from the FY 2010 \$455,000 Contingent Reserves set aside for the purpose of assisting first-time homebuyers to purchase distressed properties in the City of Alexandria through the City's HAP Program.

**BACKGROUND:** During the City's FY 2010 budget process, City Council added \$455,000 to the FY 2010 budget to potentially increase funding if needed to help low-income residents purchase distressed properties through the Homeownership Assistance Program and directed that these monies be placed in contingent reserves. This budget initiative by Council was in response to the increasing number of foreclosed properties in the City which represented very affordable home purchase opportunities for first-time home buyers in the City, as well as a negative influence on neighboring property values. This set aside of funding was also in recognition of the limited amount of funding available through the City's existing federally-funded Homeownership Assistance Program (HAP) for FY 2010 that could be used for this purpose. The City's Homeownership Assistance Program is designed to assist low-income families in purchasing a home located within the corporate limits of Alexandria. Qualified applicants can receive assistance in the form of a no-interest, 99-year deferred payment loan for principal reduction, down payment and/or closing cost assistance. Applicants must not currently own a home or have an ownership interest in a property. Applicants must have lived or worked within the corporate limits of Alexandria for at least six months prior to application, must be a U.S. citizen, or possess a valid work permit and a Social Security card, and must have a net worth within current program limits. The maximum sales price limit for the City's program is \$362,790.

**DISCUSSION:** Funding for the HAP program decreased from total FY 2009 expenditures of \$2.4 million to a budget of \$0.8 million for FY 2010. As of March 8, 2010, only \$27,047 remained uncommitted under the HAP Program. During FY 2010 to date, the City has assisted 15 homebuyers through the HAP Program, which provides loan assistance up to \$50,000 per

income eligible homeowner. The City loan takes the form of a no interest second mortgage which when combined with a first mortgage enables a homebuyer to be able to afford a housing unit that a prospective homebuyer otherwise could not afford. Of the 15 units purchased in FY 2010 using City HAP assistance, nine were foreclosures and two were short sales, and four were market sales, meaning that 73% of program participants purchased distressed properties. Based on year-to-date HAP program performance, funding for five additional loans is needed for the purchase of distressed properties.

If a target area revision is approved by the Virginia Department of Housing and Community Development (DHCD), staff anticipates that one of the distressed property HAP loans and one additional loan through the Moderate Income Homeownership Program (MIHP) may be made with funds from the federally-funded Neighborhood Stabilization Program (NSP) during FY 2010. The City received an allocation of \$0.9 million under the Virginia DHCD NSP program (NSP1) in October 2009. This funding was intended to enable the City, the Alexandria Housing Development Authority (AHDC) and Rebuilding Together Alexandria (RTA) to work together to acquire, rehabilitate and re-sell four foreclosed properties in the Hume Springs Community. Since the time of the NSP grant award from DHCD, foreclosures in Hume Springs have largely been absorbed by the private market, and only one property has been acquired and resold through this initiative to date. Staff continues to monitor acquisition opportunities in Hume Springs.

DHCD did not initially allow grantees to use NSP1 funds to acquire condominiums, but recently issued a policy notice that provides greater flexibility to grantees in deploying this funding within eligible Census tracts. In response, staff has submitted a formal request to DHCD to allow the City to expand its NSP1 target area from Hume Springs to include properties located within the two NSP-eligible Census Tracts in the West End. In addition to expanding the City/AHDC/RTA partnership into these areas, the City's request asked that \$0.2 million of its total NSP1 allocation be used to assist up to four HAP or MIHP Program participants in purchasing foreclosed homes in the designated target areas, including Hume Springs.<sup>1</sup> NSP1 down payment assistance funding, if approved, would be available through September 17, 2010, the date on which all NSP funds must be committed. Staff hopes to make at least one additional NSP-funded HAP loan and MIHP loan down payment assistance loan by the end of the fiscal year.

NSP1 funds may only be used for vacant, foreclosed or abandoned properties (short sales are not eligible under the program guidelines) in the eligible target areas. Staff is requesting that \$200,000 of the \$455,000 in Contingent Reserve funding be allocated to the HAP Program to provide a minimum of four loans of up to \$50,000 each to purchasers of distressed properties that are ineligible for NSP funding. This includes properties outside the NSP target areas and properties being sold as short sales. Under this proposal, for the balance of FY 2010, the HAP Program will be limited to distressed property purchases unless additional program income is received. Because NSP funds may be used though the first quarter of the City's FY 2011, any funds uncommitted at the end of FY 2010 would be carried over into the next year.

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<sup>1</sup> Originally, down payment assistance for NSP1 was to be provided with HAP funds, which have now been depleted.

While additional revenue to the HAP Program will become available upon the resale of a temporarily City-owned rowhouse (which the City purchased in a foreclosure process to protect a prior City loan), the timing of such revenue is uncertain. The unit is listed in the multiple listing service and is being marketed by a real estate professional. The sale of this unit will enable the City to resume providing HAP loans to four to six purchasers. These funds would be available to assist with purchasers of either distressed or market rate properties. Based on HAP activity to date, staff estimates that the program could assist the purchase of at least one additional non-distressed property for the remainder of the fiscal year.

**FISCAL IMPACT:** An allocation of up to \$200,000 in funding from Contingent Reserves from the \$455,000 set aside for this purpose by Council in the FY 2010 budget would leave \$255,000 for purchase assisting income eligible homebuyers either to be carried over to FY 2011 or to be reallocated by Council for other purposes.

**STAFF:**

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