ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of April 25, 2009

DATE: April 3, 2009

SUBJECT: Proposed Changes to Arlington County's Moderate Income Purchase Assistance Program (MIPAP)

C. M. RECOMMENDATIONS:

1. Approve an increase in the maximum homeownership assistance up to 25% of the purchase price.
2. Change the MIPAP Program from a traditional interest bearing note to a shared appreciation model.
3. Reserve $737,500 of MIPAP assistance for households purchasing at Davis Place, a new construction Affordable Dwelling Unit development in the Nauck Neighborhood Strategy Area.

ISSUES:

1. Program revisions to increase the amount of loan assistance enabling low and moderate income households to become homeowners in Arlington County.
2. Program revisions to change the MIPAP Program from a traditional interest bearing note to a shared appreciation model.
3. Reservation of MIPAP funds for purchasers at Davis Place condominiums.

SUMMARY The Moderate Income Purchase Assistance Program (MIPAP) provides down payment and closing cost assistance program for low and moderate income first-time homebuyers. Since 2003, the maximum MIPAP loan limit has remained at $25,000. Increasing the amount of assistance will give eligible households more affordable homeownership options. Changing the program to a shared appreciation model will allow the benefit of homeownership for the purchaser while keeping the program sustainable for future borrowers. Upon sale or refinance of the property, the County's share of the appreciation, together with loan repayments, will be used to assist additional households to purchase a home in Arlington. The loans will be made to eligible homebuyers purchasing either market rate or Affordable Dwelling Unit (ADU)

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BD MIPAP 2009.final

properties. Many neighboring jurisdictions, including Fairfax, Loudoun and Prince William Counties, as well as Alexandria City, currently have or are designing homebuyer assistance programs that utilize the shared appreciation model.

BACKGROUND: Since 1982 the MIPAP program has provided down payment and closing cost assistance for low and moderate income households who have not owned a home in the previous three years. The program provides a second trust mortgage of $25,000, with no interest or mortgage payments for the first five years. In year six, the monthly MIPAP loan repayment is approximately $125 per month.

At the current level of assistance, many low and moderate income households have effectively been priced out of the housing market in Arlington. From 2000 through 2005, the HUD Area Median Income (AMI) for Washington DC Metropolitan Area stayed flat, while actual housing prices in Arlington more than doubled, to a median price of $537,500 in 2008. MIPAP loan production went from a peak of 65 loans in FY 2000 to 11 loans in FY 2008.

With the $25,000 assistance from MIPAP, a typical three-person household making $63,000 (70% AMI) qualifies to purchase a home with a maximum purchase price of approximately $230,000. In today's housing market, this amount will mostly buy a one-bedroom condominium. There are few two-bedroom condominiums in this price range and virtually no larger condominiums, duplexes, townhouses, or single family homes. This is especially an issue for families and larger size households looking to become homeowners.

Under the proposed shared appreciation model, a household borrowing $80,000 in a second trust mortgage would boost its buying power to approximately $320,000. This household would now have more one and two bedroom condominium opportunities, as well as some duplexes, townhomes, and a few single family homes in Arlington. Increasing the amount of second trust assistance will help households to find the home they need at a price they can afford.

DISCUSSION: The shared appreciation model results in a program that:

- Enables families and individuals to become homeowners in Arlington County who otherwise could not afford to buy a home here;
- Allows the home buyer to enjoy some of the financial benefits of homeownership while fairly compensating the public sector for its contribution;
- Is self-sustaining in that the County's share of property appreciation and loan repayments will be used to provide similar support to future households;
- Supports homeownership for households at a similar value and for a similar affordability period as the County's investment in affordable rental units; and
- Is easy to understand and easy to administer; and
- Operates within the private market system; as well as with ADU's created by other programs.

The shared appreciation model, detailed on Attachment 1, allows eligible low and moderate income first-time homebuyers to qualify for a subordinated loan of up to 25% of the purchase price. There is no interest or monthly loan repayments associated with this program. When a homeowner chooses to sell or refinance the property, the owner must repay the principal of the original subordinate loan, plus a proportionate share (up to 25%) of the difference between the original purchase price and the new sales price less the value of any seller's concessions. This provides an incentive to the original homeowner to refinance as soon as it is feasible since, after the County is repaid, the homeowner would receive 100% of the appreciation going forward. The County would then use these repaid funds to make a loan to a new buyer for a similar-valued property. When the home is sold, the County or its designee would have the option to purchase the home at its appraised value and add the unit to its stock of ADU ownership housing. If the value of the property depreciates, then the County's share of the appreciated value would be negative and the County would not recoup the entire principal of the original loan. In other words, the County would share 25% of any loss as well as any gain. However the sustainability of the program is still maintained because a subsequent buyer would not need as great a subsidy to purchase a home at the lower price.

The shared appreciation model achieves long term affordability by directly supporting eligible households rather than controlling prices on designated units. However, for ADU's purchased through this program, Arlington County (through its nonprofit partner, AHC, Inc.) has a deed covenant securing the right of first refusal to purchase an ADU back from its current owner at a set price. The set price is calculated as affordable to a new buyer at 70% AMI at the time of resale, taking into consideration closing costs and required down payment. Arlington County can either purchase the property back through AHC, or identify a qualified low or moderate income household to purchase the ADU at the set price.

In both cases the original purchase assistance loan and the appreciated market value of the property are recycled from homeowner to subsequent homeowner, enabling affordable homeownership into the future. The number of households supported at any one time would remain constant unless additional funds are allocated to the program.

Proposed Program Compared to Current MIPAP Guidelines:

	CURRENT MIPAP	**NEW PROGRAM**
Loan Limit	$25,000	25% of purchase price up to property price limit
Property Price Limit	HUD-Home Program Limit (currently $362,790)	Same
Income Limit	80% of Area Median Income	Same
Interest Free Period	5 years	Life of the loan
Affordability Period	5 years	Life of the loan for market rate properties; secured by covenant for ADU's
County's Appreciation Share	N/A	Proportionate up to 25% of appreciated value

Proposed MIPAP Loan Amount Compared to Typical Affordable Rental Subsidy: The shared appreciation loan will be up to 25% of the purchase price. The maximum purchase price, indexed to the HUD-HOME Program limits, is currently $362,790. The purchase price limits function as a cap for the loan amount. As proposed, the maximum MIPAP loan amount would be $90,700; however staff estimates that most loans will be in the $50,000 to $70,000 range. This is in line with the amount of subsidy invested in affordable rental projects approved by the County in recent years. The average per unit AHIF investment in rental projects since 2006 is $91,818.

Based on a current program funding balance of 1.2 million, the increase in down payment/closing cost assistance could assist 15 to 20 eligible households. After the reservation for Davis Place, the program will be marketed to eligible households who are on the Notification List for Affordable Properties (the County's ADU lottery system). There are currently about 100 eligible households on this list, with a priority given to households who currently reside or work in Arlington. Households on the Notification List would also be informed of the Davis Place opportunity and targeted outreach to County and Schools Employees will be conducted.

On April 1, 2009, there were 278 properties for sale in Arlington listed under the maximum purchase price limit of $362,790. In addition to one, two, and three bedroom condominiums, this includes 14 duplexes, 9 townhomes, and 11 single family homes.

Reservation of MIPAP Funds for Units with Commitment to Permanent Affordability: Developers of condominium and cooperative projects may apply for a reservation of purchase assistance funds for one or more units of affordable housing for sale to first time homebuyers. The County Board must approve the reservation for the specific housing development and the units must be committed as ADUs, through deed covenants or other restrictions on the property.

Program Administration: Administrative aspects of the program, including, but not limited to, required down payment amount and net appreciation share will be reviewed by staff annually as part of the development of the Annual Action Plan prepared for HUD. Proposed changes would be considered by the Board as part of the Action Plan approval. The Virginia Housing Development Authority (VHDA) has approved the program guidelines for the shared appreciation model, so that the new MIPAP is compatible with VHDA's first-trust mortgage programs, especially the lower interest loans through the Sponsoring Partnerships and Revitalizing Communities (SPARC) Program.

Affordable Housing Policy: This program meets the following County Affordable Housing Goals and Targets:

Goal 7A. Increase the homeownership rate.
Goal 7B. Provide homeownership education to households with incomes below 80% of median.
Goal 7C. Increase the homeownership rate for minority households.

Reservation for Davis Place Condominium Project: AHC is currently developing a ten-unit affordable condominium project on 17th Street, S. in Nauck called Davis Place. The property was acquired in July 2006 through a donation which specified that it be used to build affordable homes for purchase by families earning below 80% of the area median income. Construction began in August 2008 and is expected to be completed in June 2009.

Davis Place, named after Jennie Davis, a Nauck leader and long time supporter of affordable housing, was designed by AHC to address the shortage of affordable housing in Arlington for larger families in need of more bedrooms and larger living spaces. There are six 3 BR, 2 bath and four 2 BR, 2 bath units. Two ground floor units have universal design features such as wider doors, lower door handles and light switches and grab bars. Davis Place will have a number of "green" building features as well.

The ten affordable units will be offered to families below 80% of the area median income. Candidates will be selected from the Arlington County homeownership Notification List, a database of over 100 pre-qualified families who typically either live or work in Arlington and are income eligible and a first-time homebuyer. Many of these candidates are young, growing families experiencing crowding in their rental apartments.

Davis Place represents the first new home construction project in 4 years designed to work in tandem with the County's affordable homeownership program. The homes are priced at $315,000 for a 3 bedroom unit and $265,000 for a 2 bedroom, well below other similar homes in the surrounding area. AHC has applied for and received special financing from VHDA that will allow 5 of the families purchasing at Davis Place to receive below market financing (current 30 year fixed rate of 4%). Approximately $737,500 is needed to provide second trust loans to make these home prices and mortgage payments affordable to the target households. AHC has worked with the County to design this program so that the homes will remain affordable for the long term benefit of Arlington's low and moderate income residents.

Community Comment: Staff has had ongoing dialogue with the Homeownership Subcommittee of the Housing Commission regarding a shared appreciation model for homeownership assistance since the fall of 2007. The Subcommittee and the Housing Commission as a whole will be meeting the week of April 13, 2009, and both committees will have an opportunity to review and vote on the proposed program changes.

FISCAL IMPACT: There is no net impact on the County's General Fund. The current balance for the MIPAP program is approximately $1.2 million.

ATTACHMENT 1

MODERATE INCOME HOME PURCHASE ASSISTANCE PROGRAM

SHARED APPRECIATION MODEL EXAMPLE
Household Sells or Refinances Property after 10 Years

The example below illustrates how the program might work for a family of three with an income of approximately $62,000. Without assistance the family qualifies for a mortgage of $227,000. If the family has $3,000 for a down payment, and closing costs are approximately 4% of the purchase price, the family will be able to purchase a home with a sales price of approximately $220,000. However with a second trust MIPAP loan at 25% of the purchase price, the family can now buy a home at a price of $292,000. In this example the MIPAP loan is $73,000.

ASSUMPTIONS

Second trust amount	25%
Appreciation share	25%
Interest rate on 1st trust	4.5%
Interest rate on 2nd trust	0%
Closing costs	4%
Selling costs	6%
Annual appreciation	3%
Annual AMI increase	3%

MAXIMUM QUALIFIED PURCHASE PRICE (Numbers are rounded for illustration purposes)

Annual Income ceiling	$62,000
Monthly housing cost at 33% of income	$1,700
Affordable monthly Mortgage payment (after condo fees & taxes)	$1,150
Affordable Mortgage	$227,000
County 2nd trust Loan (25% of purchase price)	$73,000
Required down payment – 1%	$3,000
Available Funds for Purchase	**$303,000**
Estimated Closing Costs	(11,000)
Maximum Qualified Purchase Price	**$292,000**

This illustrates sharing the difference between the original and the new purchase prices before loan payoffs, principal & down payment paid, and sales costs are subtracted from the proceeds

SHARED APPRECIATION UPON SALE AFTER 10 YEARS

New Market Value	$392,000
Less Original Purchase Price	($292,000)
= Appreciation to Share	$100,000
25% to County	$25,000
75% to Seller	$75,000
Remaining Cash Proceeds	$292,000
Deductions to Seller	
Mortgage payoff	($182,000)
County 2nd Trust loan	($73,000)
Transaction Costs	($24,000)
Remaining Cash to Seller	$13,000
Seller Funds Invested	$48,000
Down payment = $ 3,000	
Principal paid = $45,000	
Seller Funds Returned	$88,000
Appreciation = $75,000	
Cash from sale = $13,000	
Cash on cash return	83%
County Funds Invested (2nd Trust)	$73,000
+ Appreciation share	$25,000
= County Funds Returned*	$98,000*
Cash on cash return	35%
Loan to future purchaser*	$98,000*
Gap for future purchaser	($00)