



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item Meeting of April 21, 2012

DATE: April 13, 2012

SUBJECT: Funding for the Moderate Income Purchase Assistance Program (MIPAP) to Assist Qualifying Vested Residents of Buckingham Village 3 (BV3).

C. M. RECOMMENDATION:

1. Allocate \$500,000 from the FY 2012 Economic Stabilization Fund (101.450002.91102) to the Moderate Income Purchase Assistance Program (MIPAP) (206.72405) with a priority of providing first-time homebuyer loan assistance to known vested tenants of Buckingham Village 3 and other Buckingham neighborhood households.

ISSUES: County Board approval is needed to allocate MIPAP funds that will be available for known Buckingham Village 3 vested tenants and other Buckingham Village community residents to purchase a home in Arlington. There are no known issues.

SUMMARY: Under the original Buckingham Village 3 (BV3) redevelopment site plan, a home ownership component was approved that would have allowed for a home ownership option for eligible renters in this community. Due to changing real estate residential market conditions and the home mortgage environment since the original site plan was approved, staff recommended revising the Affordable Housing Program for BV3 to include 48 affordable rental apartments on Parcel B instead of for-sale condominiums. On March 13, 2012, the County Board approved the revised Housing Program and instructed staff to identify possible MIPAP funding sources. The County Board further instructed staff to outline a process for assisting eligible Buckingham Village 3 low and moderate income households to become homebuyers in Arlington. These funds will assist approximately 7-8 first time homebuyers.

BACKGROUND: The Moderate Income Purchase Assistance Program (MIPAP) provides down payment and closing cost assistance program for first-time homebuyers earning less than 80% of the Area Median Income who have not owned a home in the previous three years. From 2000 through 2009, the program provided a second trust mortgage of \$25,000. There was no interest or payments required during the first five years; thereafter the monthly MIPAP repayment was \$125.

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In April 2009, MIPAP was redesigned as a shared appreciation model—a move designed to make it easier for eligible households to buy homes in Arlington. The maximum purchase price, indexed to the HUD-HOME Program limits, is currently \$362,790. Under this model, eligible low and moderate income first-time homebuyers can qualify for a subordinated loan of up to 25% of the purchase price, with a maximum loan amount of \$90,700. This is based on the above cap of \$362,790 and also subject to affordability and loan limits for households making no more than 80% of area median income by household size. There is no interest or monthly loan repayment 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. The increased amount of second trust assistance will help households to find the home they need at a price they can afford.

The shared appreciation model achieves long term affordability by directly supporting eligible households rather than controlling prices on designated units. However, for Affordable Dwelling Units (ADU's) developed with other County Subsidy and purchased through this program, the County (through its nonprofit partner, AHC, Inc.) uses 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 and 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 directly at the set price.

Since the inception of the MIPAP program, 408 households have received MIPAP assistance. There are currently 236 active MIPAP borrowers, with a total of \$3,565,000 in funds outstanding. From FY 2007 through FY 2011, 58 MIPAP loans were funded. Minority purchasers include 17 African-American, 5 Asian, and 12 Hispanic households. Additionally, during this time period, 35 of the loans were made to purchasers in our designated Neighborhood Strategy Areas.

DISCUSSION:

Funding Sources for the County's MIPAP Program:

- FY 2012 Economic Stabilization Fund to the Moderate Income Purchase Assistance Program (\$500,000)

Program Administration: The Home Ownership Program, an ongoing program of the Housing Division, enables the County to substantially increase its focus on and promote affordable home ownership opportunities. The goals of the Home Ownership Program are threefold: to increase home ownership opportunities for low to moderate income families in the County; to provide

one-stop shopping for information for prospective homebuyers; and to provide homeowners with support services and resources to sustain home ownership.

AHC, Inc. has administered MIPAP for more than 20 years. Their primary responsibilities include program administration, loan settlements, and ongoing portfolio management. For over 15 years, Arlington Home Ownership Made Easier (AHOME), a HUD and VHDA certified counseling agency, has provided home ownership education, individual, and foreclosure prevention counseling to first-time homebuyers. AHOME uses the six-hour VHDA curriculum, that is offered once monthly in both English and in Spanish. Over the past 5 years, AHOME has counseled over 2,000 prospective first time homebuyers.

General MIPAP Guidelines: 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. 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. While the maximum MIPAP loan amount could be as high as \$90,700, staff estimates that most loans will be in the \$50,000 to \$70,000 range. Eligible households must qualify for at least one of the following first trust mortgage options: FHA, VHDA, VA, or Conventional Mortgages (issued by Fannie Mae or Freddie Mac).

Households who apply for MIPAP assistance must complete the following steps for placement on the County's Notification List for Affordable Properties (lottery list for distribution of both MIPAP funds and Affordable Dwelling Unit (ADU) properties for sale or re-sale):

1. Complete a one (1) page Homebuyer Assessment form;
2. Attend required six-hour VHDA home ownership education course and provide a copy of certificate; and
3. Obtain a Good Faith Estimate/Pre-Qualification Letter—demonstrating that household has a minimum credit score of 620 or higher.

Process for Vested Buckingham Village 3 (BV3) Households: Vested Tenants in Good Standing who are listed on the Buckingham "Ownership Unit Priority List" as of March 13, 2012 and who qualify for MIPAP assistance will have their MIPAP allocation of resources reserved until June 30, 2013. As per the Buckingham Village 3 Relocation Plan dated February 23, 2009, Vested Village 3 tenants are those who 1) were in lawful occupancy under a lease with the Developer as of the Vesting Date, which is March 19, 2009; 2) remained in lawful occupancy when 120 Day notices were issued for their apartments; and 3) are current on their rent payments and are not otherwise in violation of their lease as of the date of their 120 Day Notice and for the remainder of their tenancy (p.3 Relocation Plan). The Developer has maintained an Ownership Unit Priority List and a system of Priority Points was established in the Relocation Plan. Home Ownership staff will work with BUGATA and Telesis to contact the individuals/families on the Ownership Unit Priority List and determine the status of their interest and their eligibility for the

reserved MIPAP funds. Once eligible and interested households are identified, the County’s Home Ownership staff will work with those households individually to educate them regarding the MIPAP funds available to them for home purchase in Arlington and guide them through the home buyer process.

Process for Other Buckingham Neighborhood Households: Staff will create a Second Priority MIPAP tier/pool for those families on the Ownership Unit Priority List as of March 13, 2012 who are not vested BV3 tenants but who meet the other requirements that are specified in the BV3 Relocation Plan adopted February 2009 (“Other Buckingham Neighborhood Households”). Households who qualify for MIPAP assistance will have their MIPAP allocation of resources reserved until June 30, 2013. All tenant households on this list will be required to do the following: 1) authorize a credit check by a housing counseling agency such as AHOME; 2) attend a home buyer workshop; and 3) satisfy the other requirements of Arlington County’s affordable home ownership program. Tenants who fail to satisfy the requirements, including those with insufficient credit ratings, will forfeit their position on the priority list. These households could still join the standard MIPAP lottery pool at some future time. Previously reserved MIPAP funds will be made available to qualified households on the Notification List.

Staff and BU-GATA agree that the number of households on this second list will be small-- probably about five families. In the unlikely event that there are more families who qualify than the \$500,000 in initial funding can support, there is a priority points system defined in the Relocation Plan that would be used.

Outreach Strategy: The steps that Vested Buckingham Households and Other Buckingham Neighborhood Households will follow to qualify for mortgage financing are highlighted below:

Home Ownership Activity	Description	Timeframe
Group Informational Session	Households will be informed about the MIPAP resources and the steps required to become first-time homebuyers in Arlington.	April/May 2012
1 Hour Credit Workshop	A Credit and Credit Score Workshop will be conducted. The purpose of the workshop is to provide a basic understanding of credit, debt, how to correct past credit issues, and maintain and enhance one’s credit and debt profile.	May 2012
Individual Credit and Debt Counseling	County Home Ownership staff will obtain permission to pull merged credit profile for households (all three credit reporting agencies, along with their respective credit scores). Prospective homebuyers who meet the standards for mortgage approval will be directed to get a Good Faith Letter from a	May/June 2012

	mortgage lender that shows them what price home they would be able to afford, as well as the savings required to qualify for mortgage loan approval.	
VHDA Home ownership Education Course	Six (6) hour curriculum offered monthly in English and Spanish.	One time course must be completed prior to home purchase
Realtor and Mortgage Lender Referrals	Households can work with the real estate professionals of their choice. However, the County's Home Ownership Program maintains a list of its long standing real estate professional partners.	June/July 2012

Note: All resource providers have bilingual (Spanish) language capacity, with other language assistance available upon request.

Process for Other Interested Low and Moderate Income Households: Other interested low and moderate income households would have no specific MIPAP funds reserved, but if they are also interested in home ownership opportunities, they can also complete the steps to be placed on the Notification List for Affordable Properties, and will be considered for MIPAP funding from the general pool of funds available. As of March 2012, there are currently 125 households on the county's Notification List for Affordable Properties. This list is the basis for our lottery system for the distribution of MIPAP funds, and is also utilized for the sale of ADU properties when they become available.

When a household's name is selected for MIPAP assistance, the household has 90 days to place a ratified contract on an eligible property. If the household is not currently interested in home purchase or has not placed a contract on a property within this timeframe, the household's name will be placed back on the Notification List for future lottery opportunities. Certification on the Notification List is for a 12 month period.

VHDA and other Home Ownership Resource Leverage: In addition to MIPAP, the home ownership program also markets Virginia Housing Development Authority mortgage programs. The VHDA/FHA Plus in particular allows for 100% financing of a home. In addition, this mortgage product also includes up to a 5% additional second trust loan to cover closing costs. The current interest rate on this 30 year fixed interest rate loan (March 30, 2012) is 3.75%. VHDA income and property price limits for this and all other VHDA mortgage products in northern Virginia allow for low-moderate income and moderate income households to become first time homebuyers. The income limit for household size of one or two persons is \$120,900, and \$140,000 for household sizes of three or more. The maximum purchase price for all households is currently \$450,000. This program can provide closing costs assistance for

moderate income households, as well as low-moderate income households who do not receive MIPAP funds.

VHDA also has funds available through their Community Revitalization Program, with this program replacing their SPARC lower interest mortgage program. It provides a ½% interest rate discount on VHDA mortgages in targeted revitalization areas, such as the Nauck and Columbia Heights West communities. Presently, the County has a \$2,932,000 application pending. The income and property price limits are the same as the VHDA/FHA Plus Program. These funds will provide first trust mortgages for approximately 10 eligible households to purchase homes in those designated neighborhoods.

Additionally, the County’s Live Near Your Work Program provides a forgivable loan to eligible households who purchase a home in Arlington. Since its inception in 2003, 169 County and 157 Schools employees have benefitted from this program. The program was suspended in the County in 2009, but continues to be funded for Schools employees. Live Near Your Work currently allows for a forgivable loan calculated as 1% of the purchase price of the home, with a maximum loan amount of \$5,000. The loan is forgiven over a three year period, as long as the qualifying employee remains employed at the schools and has this property as their primary address.

Available Properties for Purchase: As of March 23, 2012, following properties were available for sale Countywide and in the Buckingham Zip Code 22203:

Arlington Residential Properties Currently Available for Sale*				
Property Price	Total Number of Homes Available (Countywide)	Number of Bedrooms	Total Number of Homes-- Buckingham (Zip 22203)	Number of Bedrooms
\$362,000 and Under	207	1 bedroom: 104	21	1 bedroom: 11
		2 bedrooms: 86		2 bedrooms: 10
		3+ bedrooms: 17		3+ bedrooms: 0
\$300,000 and Under	143	1 bedroom: 73	18	1 bedrooms: 11
		2 bedrooms: 59		2 bedrooms: 7
		3+ bedrooms: 11		3+ bedrooms: 0
\$250,000 and Under	80	1 bedroom: 48	11	1 bedrooms: 7
		2 bedrooms: 27		2 bedrooms: 4
		3+ bedrooms: 5		3+ bedrooms: 0

*Source: Realtor.com

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

- Goal 9. Increase home ownership opportunities for low and moderate income households

Community Process: County Staff will meet with representatives from appropriate non-profit organizations and the Housing Commission's Home Ownership Subcommittee to provide recommendations to the County Board on alternatives to further enhance the effectiveness and production of the Moderate Income Home Ownership Program in concert with the County Board's Goals and Targets for Home Ownership. The Housing Commission and the Home ownership subcommittee of the Advisory Commission on Housing was scheduled to meet to discuss the program on April 12, 2012.

As outlined within the County Board Affordable Housing Direction of March 13, 2012, staff will also help establish and participate in a working group including representation from appropriate non-profit organizations and the Housing Commission's Home Ownership Subcommittee to provide recommendations to the County Board on alternatives to further enhance the effectiveness and production of MIPAP in concert with the County Board's Goals and Targets for home ownership.

FISCAL IMPACT: The current balance of the County's Economic Stabilization Fund is \$1,010,296 . Approval of the County Manager recommendation to allocate \$500,000 would result in an Economic Stabilization Fund balance of \$510,296. .

ATTACHMENT 1

MODERATE INCOME HOME PURCHASE ASSISTANCE PROGRAM

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

In the market study prepared by McWilliams/Ballard the average price for a unit comparable in size and age to the BV3 units is approximately \$296,000. The example below illustrates how the MIPAP program works for a qualifying family that purchases a home at that price and sells or refinances ten years later. Caution! Numbers are estimates based on the following assumptions:

ASSUMPTIONS

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

INCOME REQUIRED TO PURCHASE (Numbers are rounded for illustration purposes)

Purchase price of home	\$296,000
Estimated Closing Costs	9,000
Total Funds Required to Purchase	\$305,000
County MIPAP Loan (25% of purchase price)	\$74,000
Required down payment – 1%	\$3,000
First trust loan amount	\$228,000
Monthly Mortgage payment (before condo fees & taxes)	\$1,100
Monthly housing cost (includes condo fees & taxes)	\$1,600
Affordable to a Family with this income (based on housing costs = 33% of income)	\$58,000

Without MIPAP assistance a household with a \$58,000 income qualifies for a mortgage of approximately \$228,000 after down payment and closing costs are considered. If the family has \$3,000 for a down payment, and closing costs are 3% of the purchase price, the family will be able to purchase a home with a sales price of approximately \$222,000. By contrast, the average comparable 1-bedroom condo in the McWilliams/Ballard study sold for nearly \$254,000. This \$222,000 price would be further reduced if the lender requires mortgage insurance. However with a second trust MIPAP loan at 25% of the purchase price, mortgage insurance is not required and the family can now buy a home at a price of \$296,000.

In this example the MIPAP loan is \$74,000 which is 25% of the purchase price of the home. In the Shared Appreciation program, the home buyer agrees that when the home is sold, the County will share the appreciated value of the home in the same proportion as the assistance. The table below illustrates how this works if the property appreciates at 3% annually for ten years.

SHARED APPRECIATION UPON SALE AFTER 10 YEARS

New Market Value	\$396,000
Less Original Purchase Price	(\$296,000)
= Appreciation to Share	\$100,000
25% to County	\$25,000
75% to Seller	\$75,000
Remaining Cash Proceeds	\$296,000
Deductions to Seller	
Mortgage payoff	(\$185,000)
County 2nd Trust loan	(\$74,000)
Selling Costs (6%)	(\$24,000)
Remaining Cash to Seller	\$13,000
Seller Funds Invested	\$46,000
Down payment = \$ 3,000	
Principal paid = \$43,000	
Seller Funds Returned	\$88,000
Appreciation = \$75,000	
Cash from sale = \$13,000	
Cash on cash return	191%
County Funds Invested (2nd Trust)	\$74,000
+ Appreciation share	\$25,000
= County Funds Returned*	\$99,000*
Cash on cash return	34%
Loan to future purchaser*	\$99,000*