



## DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

*Grants Management Division*

### **m e m o r a n d u m**

**TO:** Bruce K. Walden, Chief Administrative Office

**FROM:** Elizabeth H. Tyler, AICP, City Planner/Director

**DATE:** April 9, 2003

**SUBJECT: HOMEBUYER ASSISTANCE PROGRAM (SERIES 2003)**

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### **Description**

Included on the April 14, 2003 agenda of the Urbana City Council Committee of the Whole is Homebuyer Assistance Programs – Series 2003. For 2003, the City of Urbana may issue up to \$2,729,625 in private activity revenue bonds. This staff memorandum provides recommendations to utilize the revenue bonds for homebuyer assistance programs.

### **Issues**

The issue is to determine whether the City of Urbana should participate in the homebuyer assistance programs offered by Stern Brothers & Co. and the Illinois Housing Development Authority (IHDA). Any unused bond authority not ceded for any combination of these programs will be ceded back to the State of Illinois for use by another municipality.

Stern Brothers & Co. offer a first-time homebuyer assistance program called *AssistUrbana*, which provides 4.25% of the mortgage as grant for downpayment assistance and fixed rate mortgage.

The Illinois Housing Development Authority offers the following three (3) homebuyer assistance programs:

The *First-Time Homebuyer Program (MRB\*)*, which offers 30-year fixed-rate, mortgages at below market interest rates. \*(mortgage revenue bonds)

The *Mortgage Credit Certificate (MCC)* Program offers a tax credit that can assist homebuyers in qualifying for a mortgage by reducing one's federal income taxes.

The *Home Equity Loan Program (HELP)*, which provides 4.25% of the mortgage as grant for downpayment assistance and fixed rate mortgage.

### **Background**

Pursuant to the Internal Revenue Service code, each municipality is allowed to issue private activity revenue bonds up to \$75.00 per capita per year. Based upon on a population of 36,395, the City of Urbana may issue up to \$2,729,625 in private activity revenue bonds this year. The City may utilize its private activity bond authority for one of three activities:

- 1) Below-market-rate financing for affordable housing
- 2) Mortgage credit certificates in support of homeownership, or
- 3) Below-market-rate financing for limited types of industrial developments

The State of Illinois each year recaptures any bond allocation unused by the city as of May 1. The city may elect to use its allocation, allow its allocation to be recaptured by the state, or voluntarily cede its allocation to the state or to any community. Revenue bond allocations can be transferred from one community to another.

In recent years, Urbana has used its private activity bond allocation for homebuyer assistance programs, rather than allow it to be recaptured by the state.

In order to qualify for the *AssistUrbana* and Illinois Housing Development Authority homebuyer assistance programs, families will need to meet household income and purchase price limits. While the program would be available citywide, the Internal Revenue Service has designated program target areas (see attached map). Income and purchase price limits vary depending on whether the property purchased is located in or out of the target area. Households purchasing within the target areas need not be first-time homebuyers. Income and purchase price limits applicable to the 2003 program are as follows.

| <u>Maximum Household Income Limits</u>                    |                      |           |
|---|----------------------|-----------|
| Non-targeted areas  | 1-2 person household | \$62,200  |
|   | 3 or more persons    | \$71,530  |
| Targeted area   | 1-2 person household | \$74,640  |
|   | 3 or more persons    | \$87,080  |
| <u>Maximum Purchase Price Limits (single-family home)</u> |                      |           |
| Non-targeted areas  | Existing properties  | \$99,380  |
|   | New construction     | \$193,810 |
| Targeted area   | Existing properties  | \$121,460 |
|   | New construction     | \$236,880 |

**Program 1 - *AssistUrbana***

The *AssistUrbana* Program was first started under the name of *AccessUrbana* in 1995 and has subsequently assisted over 150 families purchase homes in Urbana.

*AssistUrbana* currently provides 30-year fixed rate FHA/VA mortgage loans at 7.70 percent interest and conventional loans at 7.295 percent interest through Busey Bank, BankIllinois, BankOne, National City Bank, and Union Planters Bank. The program also provides non-

repayable, non-taxable grants for downpayment and closing costs up to 4.25 percent of the home mortgage amount. The city and bank personnel through direct mailers, seminars, and media advertising have marketed the program jointly.

The City ceded seventy five percent (75%) or \$2,047,219 of its bond cap the AssistUrbana program in 2002. The new program would be structured similarly to the 2002 program in that both downpayment grants and an interest rate for mortgage financing would be offered. The program would provide downpayment grants up to 4.25 percent of the home mortgage amounts. The interest rate for mortgage financing is unknown. Last year the rate was 7.30%, certainly higher than market rate loans.

*AssistUrbana* supports both FHA and VA lending programs.

The actual interest rate would be established on the date of the bond sale and would depend on market conditions at that time. Also similar to past years are the communities participating in the Assist program; including Urbana, Champaign, Rantoul, Peoria, Springfield, Decatur, Charleston, Danville, and Mattoon.

City Council approved Ordinance No. 2003-02-010 at the February 17, 2003 Council meeting, with the understanding that the City would participate in the program and that the amount ceded to this program would be determined later.

To participate in the *AssistUrbana* for 2003, the city would need to transfer all or a portion of its bond allocation to the Sterns Brothers & Co. If the city decides to participate in this program, loans would be available beginning around June 1.

## **Program 2 - Illinois Housing Development Authority Homebuyer Assistance Programs**

### *First-Time Homebuyer Program (MRB)*

The program provides 30-year fixed-rate mortgages at below market interest rates.

Current rates are as follows:

5.25% - 0 Points

5.10% - 1 Point

4.95% - 2 Points

4.80% - 3 Points

The City ceded twenty five percent (25%) or \$682,406 of its bond cap to the MRB program for 2002. There has been very limited use of the program. This could be due to the fact the current mortgage rates are very favorable. Considering the limited utilization of the program, staff does not recommend ceding bond cap to this program for 2003.

### *Mortgage Credit Certificate (MCC)*

This program offers a tax credit that can assist homebuyers in qualifying for a mortgage by

reducing one's federal income taxes.

The following is an example of tax savings associated with this project:

Assume a family earns \$40,000 annually with no other standard tax deductions. They buy their first home and borrow \$95,000 at an interest rate of 7.5 % while qualifying for a Mortgage Credit Certificate. The tax savings in the example are \$1,508. The homeowner may take this credit as long as they maintain the original mortgage and live in the house as their principal residence.

|                    | <u>Taxes Without MCC</u> | <u>Taxes With MCC</u> |
|--------------------|--------------------------|-----------------------|
| Income             | \$40,000                 | \$40,000              |
| Mortgage Deduction | 7,095                    | 5,321                 |
| Taxable Income     | 30,258                   | 32,306                |
| Taxes Due at 15%   | 4,936                    | 5,202                 |
| MCC Credit         | —                        | 1,774                 |
| <b>Taxes Due</b>   | <b>\$4,936</b>           | <b>3,428</b>          |

The City has not had any experience with ceding bond cap to this program. However, the City of Champaign ceded bond cap to this program last year and realized limited activity.

Staff senses that the Mortgage Credit Certificate, while providing the most financial benefit to homebuyers, requires a great deal more administration for first-time homebuyers. For instance, homebuyers must be sure to file the appropriate forms on their federal tax returns in order to realize benefits.

One local lender indicated an interest in having this homebuyer assistance tool available in Urbana. It may be that most homebuyers are challenged with downpayment requirements and focusing resources to address this matter will have greater impact.

*Home Equity Loan Program (HELP),*

The program provides 4.25% of the mortgage as a grant for downpayment assistance and a fixed rate mortgage. *HELP* is very similar to the *AssistUrbana Program*. The differences seem to be the underwriting criteria for the programs. IHDA has indicated that their *HELP* underwriting requirements are similar to *AssistUrbana*. However, IHDA may desire more time and effort related to reviewing the documentation related to meeting underwriting requirements.

The lower interest rate provided by IHDA's *HELP* program can also be attributed to the fact that they sell bonds throughout the course of the year. This helps to better mirror current market rates. As opposed to *AssistUrbana*, which sells its bonds at one time and is locked

into an interest rate until the funding is exhausted.

Also of note is that while the HELP program can do FHA lending it does not support VA lending programs.

The following is list of IHDA approved lenders that can participate in these programs: Bank of Rantoul, Bank One Mortgage Corporation, Bank Champaign, N.A., BankIllinois, Busey Bank, First-Federal Savings Bank of C-U, First Mid-Illinois Bank and Trust, First Midwest Mortgage Corporation, National City Bank, Rantoul First Bank, SB, RBC Mortgage Company, Union Planters Bank, N.A., United Financial Mortgage Corp., Wells Fargo Home Mortgage

To participate in the IHDA homebuyer programs for 2003, the city would need to transfer all or a portion of its bond allocation to the IHDA. If the city decides to participate in this program, loans would be available beginning around June 1.

At their regular meeting, the Community Development Commission requested that staff consider investigating the following prior to the City Council's Committee of the Whole meeting.

1. Can the bond cap that is ceded to the *IHDA HELP* Program be transferred into other IHDA homebuyer programs, should market conditions change?
2. Are the *IHDA HELP* underwriting requirements more stringent than the *AssistUrbana* underwriting requirements and if so, to what extent?

IHDA indicated that a community could request that *IHDA HELP* bond cap be moved the *First-Time Homebuyer Program*, without much difficulty. However, moving *IHDA HELP* bond cap to the *Mortgage Credit Certificate* program is not impossible, but it would be difficult and time consuming.

Regarding underwriting requirements, IHDA indicated that the underwriting guidelines are identical to *AssistUrbana*. The HELP product can be used with conventional PMI or with FHA. The only real difference is that they make sure that the lenders actually look at the documentation they are collecting, but the same underwriting guidelines apply.

## Options

The options available to the City of Urbana are numerous. The City can cede as much or as little of their private activity bond cap to one or all of the four homebuyer programs.

- *AssistUrbana*
- *First-Time Homebuyer Program (MRB)*
- *Mortgage Credit Certificate (MCC)*
- *Home Equity Loan Program (HELP)*

## **Fiscal Impacts**

Other than Community Development staff time to organize and market the programs, there would be no city financial outlay connected to the programs. Program administrative fees incurred by the bond counsels and by the city's bond consultants would be paid with bond proceeds. In all four programs, the city would have no liability for bond repayment since the city would not be the bond issuer and all mortgage repayments would be government-insured.

## **Recommendations**

After full evaluation of the options available to utilize the City's 2003 Bond Cap, the Community Development Commission and staff agreed on the following recommendation to the Urbana City Council.

Cede 25 percent (\$682,406) of the city's bond cap allocation to the *AssistUrbana* Program.

Cede 75 percent (\$2,047,219) of the city's bond cap allocation to the Illinois Housing Development Authority's *Home Equity Loan Program*.

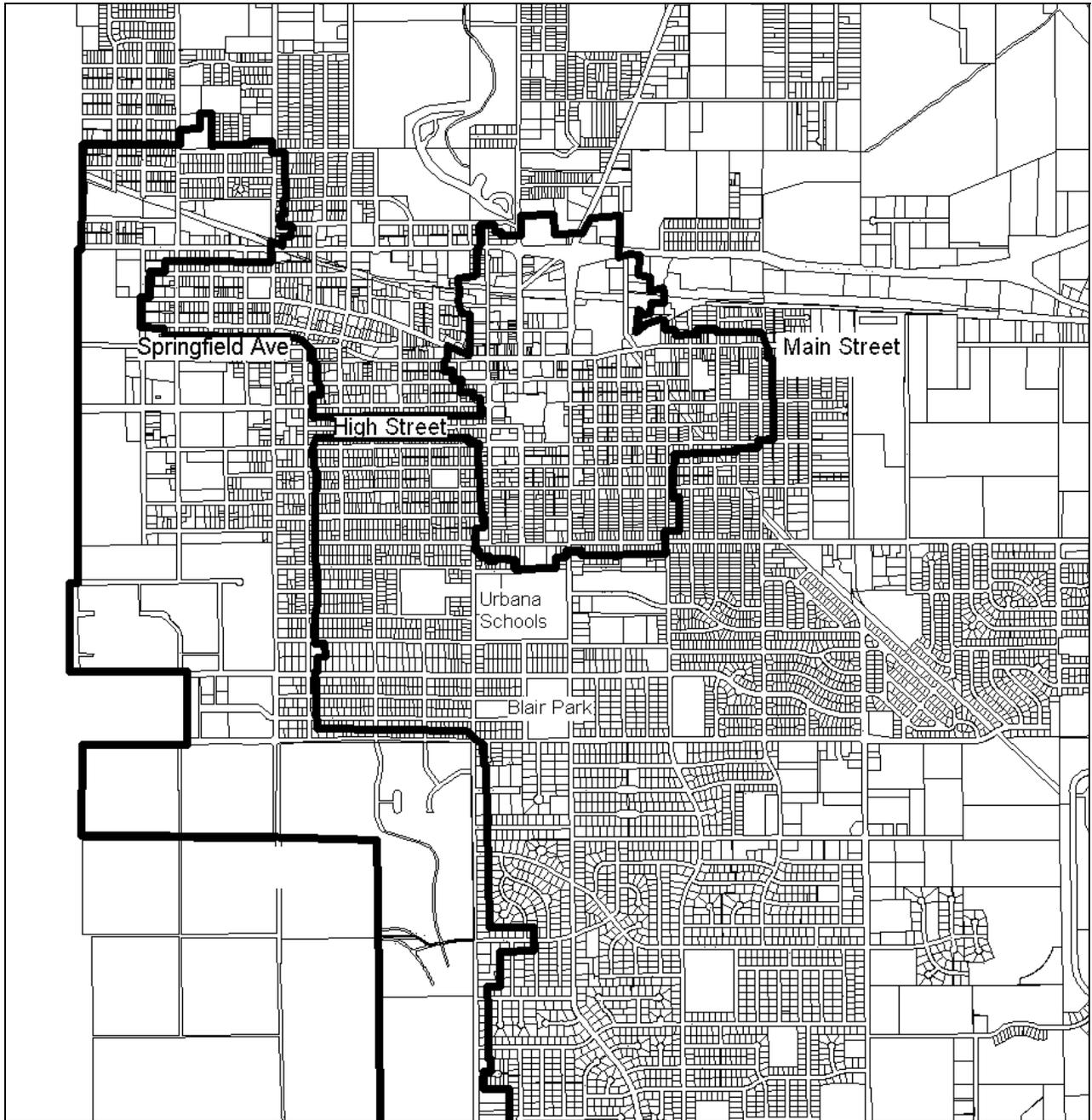
Memorandum Prepared By:

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Bob Grewe, AICP  
Grants Management Division, Manager

Attachments:

- (1) AssistUrbana Target Area Map
- (2) RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOME BUYER SINGLE-FAMILY PROGRAM (HELP Program, Series 2003)
- (3) AN ORDINANCE APPROVING THE TRANSFER OF VOLUME CAP IN CONNECTION WITH PRIVATE ACTIVITY BOND ISSUES AND RELATED MATTERS (ASSISTURBANA, SERIES 200



## City of Urbana 2003 1<sup>st</sup> Time Homebuyer Target Area

\*The data to depict the 1<sup>st</sup> Time Homebuyer Target Area is provided the Internal Revenue Service.

RESOLUTION NO. 2003-04-007R

RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY  
FIRST-TIME HOME BUYER SINGLE-FAMILY PROGRAM

(HELP Program, Series 2003)

WHEREAS, there exists within the borders of the City of Urbana, Illinois (the "Municipality"), a recognized need for decent, safe, sanitary and well-constructed and maintained housing which persons of moderate income can afford; and

WHEREAS, the Municipality is a home rule unit of local government pursuant to Article VII of the Illinois Constitution of 1970 and, as such a home rule unit, the Municipality receives an annual allocation of private activity bond volume cap ("Volume Cap") pursuant to Section 146 of the Internal Revenue Code of 1986, as amended from time to time (the "Code"); and

WHEREAS, Section 143 of the Code (Section 143") authorizes home rule units to issue mortgage revenue bonds ("Revenue Bonds") using Volume Cap, the proceeds of which are to be used to purchase qualified mortgage loans, as defined in Section 143 ("Mortgage Loans") made to homebuyers satisfying the requirements of Section 143 ("Homebuyers"); and

WHEREAS, the Municipality is considering establishing and implementing a mortgage revenue bond program (the "HELP Program") to purchase Mortgage Loans from Homebuyers living within the Municipality, using \$2,047,219 of its Volume Cap for the year 2003 ("Year 2003 Volume Cap"); and

WHEREAS, the Illinois Housing Development Authority ("IHDA") has offered to create and administer the "HELP Program"; the Municipality would cede to IHDA a portion of its Year 2003 Volume Cap, and for a period of one (1) year from the commencement date of the "HELP Program", IHDA would issue Revenue Bonds and use the proceeds to purchase only Mortgage Loans made to Homebuyers living in the Municipality.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF URBANA, ILLINOIS, as follows:

SECTION 1. The Municipality makes the findings and determinations set forth in the preamble. The terms defined in the preamble are adopted for the purposes of this Resolution.

SECTION 2. The Municipality approves and authorizes its participation in the "HELP Program" and cedes to IHDA \$2,047,219 of its Year 2003 Volume Cap for purposes of establishing and administering the "HELP Program".

SECTION 3. The Municipality authorizes and empowers the proper officials, agents and employees of the Municipality to do all acts and things and to execute all documents and instruments as may be necessary to participate in the "HELP Program" and to carry out and comply with the provisions and intent of this Resolution or to effectuate its purpose.

SECTION 4. This Resolution shall take effect immediately upon its adoption.

PASSED by the City Council this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

AYES:

NAYS:

ABSTAINS:

\_\_\_\_\_  
Phyllis D. Clark, City Clerk

APPROVED by the Mayor this \_\_\_\_\_ day of \_\_\_\_\_, 2003.

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Tod Satterthwaite, Mayor