



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

TO: Laurel Lunt Prussing, Mayor

FROM: Elizabeth H. Tyler, FAICP, Community Development Director

DATE: April 8, 2009

SUBJECT: **RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO TRANSFER VOLUME CAP IN CONNECTION WITH PRIVATE ACTIVITY BOND ISSUES, SINGLE-FAMILY MORTGAGE REVENUE BONDS; AND RELATED MATTERS** (Private Bond Cap Allocation – AssistUrbana, Series 2009)

RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOMEBUYER SINGLE-FAMILY PROGRAM (MCC Program, Series 2009)

Description

Included on the agenda of the April 13, 2009 Urbana City Council Committee of the Whole meeting are resolutions to allocate the City's Private Activity Bond Cap to the Assist Program and to the Illinois Housing Development Authority (IHDA) Mortgage Credit Certificate (MCC) Program.

Issues

The issue whether the Urbana City Council should approve the Resolutions allocating the use of the City of Urbana's 2009 private activity bond cap. The City's private activity bond cap must be allocated or reserved before April 30, 2009.

The options include reserving the bond cap for specific projects or participating in homebuyer assistance programs offered by Stern Brothers & Co. and IHDA. Any unused bond cap not ceded for any combination of these programs will automatically be ceded back to the State of Illinois for use by another municipality.

Background

In accordance with the IRS Code, each municipality in Illinois is allowed to issue private activity bonds in the amount of \$90 per capita population for 2009. 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. The City of Urbana has a total of \$3,553,560 in 2009 Private Activity Bond Cap available that can be utilized for:

- 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

In recent years, Urbana has used its private activity bond allocation for homebuyer assistance programs. In order to qualify for the Assist and Illinois Housing Development Authority (IHDA) homebuyer assistance programs, participating households are required to meet income and purchase price limits. Each of these programs has standard criteria in that those receiving assistance must meet income limits for the area, be first-time homebuyers unless purchasing in a targeted area, and the home must meet the prescribed purchase limits.

While the program would be available citywide, the Internal Revenue Service (IRS) has designated program target areas (which may be located using IHDA’s website at <http://www.ihda.org/census.htm>). Income and purchase price limits vary depending on whether the property purchased is located within or outside of the target area. Households purchasing within the target areas need not be first-time homebuyers. Income and purchase price limits applicable to the 2009 program are as follows:

	<u>Maximum Household Income Limits</u>	
Non-targeted areas	1-2 person household	\$69,400
	3 or more persons	\$79,810
Targeted area	1-2 person household	\$83,280
	3 or more persons	\$97,160
	<u>Maximum Purchase Price Limits (Single-family home)</u>	
Non-targeted areas	Existing or new construction	\$258,690
Targeted area	Existing or new construction	\$316,170

1) Assist Program

The *AssistUrbana* Program was first started under the name of *AccessUrbana* in 1995 and has subsequently assisted over 250 families with purchasing a home in Urbana. The 2008 Assist Program leveraged \$1,429,522 million in home loans for 14 Urbana families, providing an average loan of \$102,109. Historically, the Assist Program has provided 30-year fixed rate FHA/VA mortgage loans or conventional loans at competitive interest rates (6.17 – 6.5 percent last year) through participating local lenders. The program has also provided non-repayable, non-taxable grants for down payments and closing costs up to 4.25 percent of the home mortgage amount. The Assist Program has supported both FHA and VA lending programs and is marketed

by the City and local lenders through direct mailers, seminars, and media advertising.

In a recent letter to the City, David Rasch, Managing Director of the Assist Program for Stern Brothers & Co. (copy attached), requested that, although the recent market conditions have adversely affected the mortgage market, the City of Urbana consider continued support by ceding all or a portion of its bond allocation to the Assist Program. Mr. Rasch indicated that, “Over the past five years, Assist had funded 144 loans in Urbana totaling more than \$14.7 million. Since mid-2008, however, market disruptions have prevented the efficient marketing of tax-exempt housing bonds at interest rates that would offer homebuyers attractive mortgage financing options. We are developing several different bond structures intended to address these market inefficiencies and provide homebuyers with viable financing terms as markets begin to revert to more rational conditions.”

If the City decides to cede 2009 bond cap to the Assist Program, Stern Brothers & Co. would have three years to use it. In 2008, the City ceded one-half (50%) of its bond cap to the Assist Program.

2) IHDA Mortgage Credit Certificate Program

In recent years, the City has also ceded a portion of its bond cap to IHDA for use in its First-Time Homebuyer Program (MRB) and the Mortgage Credit Certificate Program (MCC). These programs allow lenders to be more flexible in meeting the specific needs of first-time homebuyers.

In 2008, the MRB Program funded eight mortgages in Urbana totaling \$679,560 with an average loan of \$84,945. However, due to the unpredictability of the bond market, IHDA has requested that the City consider ceding all or a portion of its 2009 private activity bond allocation to IHDA for only the MCC Program. The MCC Program in 2008 assisted nine Urbana homebuyers for loans totaling \$789,840 with an average loan of \$87,760.

The IHDA Mortgage Credit Certificate (MCC) program allows an eligible homebuyer to obtain a federal income tax credit on a portion of their mortgage interest paid each year for the life of the loan. In 2008, the City ceded one-half (50%) of its bond cap to IHDA programs to be divided equally between the MRB or MCC programs. If the City decides to participate, programs would have funding available beginning around June 1, 2009.

Options

The City must allocate or reserve its private activity bond authority for 2009 by April 30, 2009. The City can cede or reserve as much or as little of its private activity bond cap to one or all of the following activities:

- Reserve private activity bond cap for the purpose of furthering neighborhood initiatives
- AssistUrbana Program
- Mortgage Credit Certificate (MCC)

Fiscal Impacts

Allocating the private activity bond cap to these programs requires minimal expenditures to produce flyers for marketing. For the homebuyer assistance programs, some Community Development staff time to organize and market the programs will be required.

Program administrative fees incurred by the bond counsels and by the City's bond consultants would be paid with bond proceeds. For homebuyer 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.

Recommendation

At its March 24, 2009 meeting, the Urbana Community Development Commission voted unanimously to forward the Resolutions to the Urbana City Council with a recommendation for allocation of the City of Urbana 2009 private activity bond cap in the following manner: \$1,776,780 to be utilized for the Assist Program; \$1,776,780 to be utilized for the IHDA Mortgage Credit Certificate (MCC) Program.

Memorandum Prepared By:

John A. Schneider
Grants Management Division, Manager

Attachments:

RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO TRANSFER VOLUME CAP IN CONNECTION WITH PRIVATE ACTIVITY BOND ISSUES, SINGLE-FAMILY MORTGAGE REVENUE BONDS; AND RELATED MATTERS (Private Bond Cap Allocation – AssistUrbana, Series 2009)

RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOMEBUYER SINGLE-FAMILY PROGRAM (MCC Program, Series 2009)

Copy of: Letter from David Rasch, Managing Director of the Assist Program for Stern Brothers & Co., dated March 12, 2009

RESOLUTION NO. 2009-04-015R

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

(MCC Program, Series 2009)

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 25 of the Code authorizes home rule units to elect to surrender all or a portion of the Volume Cap available to issue Revenue Bonds and to issue mortgage credit certificates ("MCC's") in place of those Revenue Bonds; Homebuyers receiving such MCC's are entitled to a credit against their federal income tax; and

WHEREAS, the Municipality is considering establishing and implementing a Mortgage Credit Certificate Program (the "MCC Program") to issue MCC's to Homebuyers living within the Municipality, using \$1,776,780 of Year 2009 Volume Cap; and

WHEREAS, the Illinois Housing Development Authority ("IHDA") has offered to create and administer the MCC Program; the Municipality would cede to IHDA a portion of its Year 2009 Volume Cap, and for a period of one (1) year from the commencement date of the MCC Program, IHDA would provide the MCC's exclusively to, Homebuyers living in the Municipality; and

WHEREAS, the MCC Program has received the approval of the Municipality Finance Committee.

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 MCC Program and cedes to IHDA \$1,776,780 of its Year 2009 Volume Cap for purposes of establishing and administering the MCC 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 MCC 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 _____,
_____.

AYES:

NAYS:

ABSTAINS:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this _____ day of _____,
_____.

Laurel Lunt Prussing, Mayor