



## 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 Tyler, AICP, City Planner/Director

**DATE:** April 10, 2008

**SUBJECT:** **RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO ISSUE SINGLE FAMILY MORTGAGE REVENUE BONDS AND RELATED MATTERS.**  
(Private Activity Bond Cap Allocation - Assist Urbana Series 2008)

**RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOMEBUYER SINGLE-FAMILY PROGRAMS** (MCC and MRB Programs –Series 2008)

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### **Description**

Included on the agenda of the April 14, 2008 meeting of the Urbana City Council Committee of the Whole are resolutions to allocate the City's Private Activity Bond Cap to the Assist Program and to the Illinois Housing Development Authority (IHDA) Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs.

Approval of these resolutions by the Urbana City Council before May 1, 2007 is required in order to allocate the City's private activity bond cap to the Assist Program and to the Illinois Housing Development Authority First Time Homebuyer (MRB) and Mortgage Credit Certificate (MCC) Programs.

### **Issues**

The issue is to determine the best use of the City of Urbana's 2008 private activity bond cap. The options include reserving the bond cap for specific projects or participating in the homebuyer assistance programs offered by Stern Brothers & Co. and the Illinois Housing Development Authority (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 \$85 per capita population for 2008. 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 \$3,285,930 in 2008 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 has designated program target areas (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 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 2008 program are as follows:

<u>Maximum Household Income Limits</u>		
Non-targeted areas	1-2 person household	\$66,300
	3 or more persons	\$76,245
Targeted area	1-2 person household	\$79,560
	3 or more persons	\$92,820
<u>Maximum Purchase Price Limits (Single-family home)</u>		
Non-targeted areas	Existing or new construction	\$237,030
Targeted area	Existing or new construction	\$289,700

**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 2007 Assist program leveraged \$6,294,509 million in home loans for 63 Urbana families, providing an average loan of \$99,912. The proposed Assist Program will provide 30-year fixed rate FHA/VA mortgage loans or conventional loans at between an estimated 6.17 – 6.5 percent interest through participating local lenders. 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 Assist Program supports both FHA and VA lending programs and is marketed by the City and local lenders through direct mailers, seminars, and media advertising.

The current interest rate is 6.10 percent and is subject to change based on changes in market

conditions at the time bonds are sold (program bonds are sold in intervals throughout the year). Also similar to past years is the list of communities participating in the Assist Program; including Urbana, Champaign, Rantoul, Peoria, Springfield, Decatur, Charleston, Danville, and Mattoon.

In 2007, the City ceded one half (50%) of its bond cap to the Assist Program. To participate in the *AssistUrbana* for 2008, the City would need to transfer all or a portion of its bond allocation to the Sterns Brothers & Co., and loans would be available beginning around June 1, 2008.

## **2) IHDA First-Time Homebuyer (MRB) and Mortgage Credit Certificate (MCC) Programs**

The IHDA programs allow for communities to cede a portion of their bond cap to IHDA be able to utilize both the First-Time Homebuyer Program (MRB) and the Mortgage Credit Certificate Program (MCC). These programs allow the lenders to be more flexible in meeting the specific needs of first-time homebuyers. Through these programs, lenders can help buyers with either downpayment assistance or in obtaining a lower interest rate.

The IHDA First-Time Homebuyer Single-Family Program (MRB) offers homebuyers a reduced interest rate or downpayment assistance for their IHDA mortgage through the “Below Market Rate” program. 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. A key change with the IHDA products in 2007 was the introduction of job loss protection insurance on the loan payment during the first three years of homeownership as well as IHDA’s indemnification of buyers for recapture if the buyer sells prior to the nine year affordability period. The MRB program requirements changed recently and now require a 5% downpayment (no regulation regarding source) with at least 1% coming directly from buyer funds. Due to recent staff changes and absences, IHDA has been unable to provide much data regarding the number of projects receiving assistance in Urbana in 2007

In 2007, the City ceded one half (50%) of its bond cap to IHDA programs to be divided equally between the MRB or MCC programs. To participate in the IHDA homebuyer programs for 2008, the City would need to transfer all or a portion of its bond allocation to IHDA. If the City decides to participate in this program, loans would be available beginning around June 1, 2008.

## **3) Community Reinvestment Group Input**

City staff meets regularly with the Community Reinvestment Group (CRG) to identify strategies and facilitate activities that help provide affordable housing opportunities in the area. The CRG consists of area lenders, non-profit housing developers, credit counselors and staff from the City of Urbana, Champaign County and the City of Champaign. During the April 2008 CRG meeting, staff requested lender feedback regarding the use of bond cap authority for the various homebuyer programs. Consensus among the CRG representatives was that the Assist and IHDA programs would be beneficial to the community. Providing funding for the various programs at the recommended levels will help provide more opportunities for down payment assistance to qualified first-time homebuyers.

## Options

To participate in the programs, the City must allocate its private activity bond authority for the year 2008. The City can cede as much or as little of its private activity bond cap to one or all of the following programs:

- Reserve private activity bond cap for the purpose of furthering neighborhood initiatives
- AssistUrbana Program
- First-Time Homebuyer Program (MRB)
- 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.

Under these programs, the City would realize an increase in property taxes from new Urbana homebuyers. 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

The Urbana Community Development Commission voted (4 ayes, 1 opposed and 1 abstained) to forward the Resolutions to Council with a recommendation for approval. Further, citing concern regarding the lack of data from IHDA for 2007 projects, the CDC requested that staff send a concise letter through City Council to IHDA, "noting that, for continued participation in IHDA's funding allocation, the City of Urbana requires specific information by a certain date."

Grants Management Division staff recommends that the Urbana City Council approve the Resolutions allocating the City of Urbana 2008 private activity bond cap in the following manner: \$1,642,966 to be utilized for the Assist Program; \$821,482 to be utilized for the IHDA First Time Homebuyer (MRB) Program; and \$821,482 to be utilized for the IHDA Mortgage Credit Certificate (MCC) Program.

Memorandum Prepared By:

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John A. Schneider  
Grants Management Division, Manager

Attachments:

RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO ISSUE SINGLE FAMILY MORTGAGE REVENUE BONDS AND RELATED MATTERS (Private Bond Cap Allocation - Assist Urbana Series 2008)

RESOLUTION APPROVING PARTICIPATION IN ILLINOIS HOUSING DEVELOPMENT AUTHORITY FIRST-TIME HOMEBUYER SINGLE-FAMILY PROGRAMS (MCC and MRB Programs –Series 2008)

RESOLUTION NO. 2008-04-006R

**RESOLUTION EVIDENCING THE INTENTION OF THE CITY OF URBANA, CHAMPAIGN COUNTY, ILLINOIS, TO ISSUE SINGLE FAMILY MORTGAGE REVENUE BONDS AND RELATED MATTERS**

**(Private Bond Cap Allocation - Assist Urbana, Series 2008)**

Whereas, the City of Urbana, Champaign County, Illinois (the "Issuer") is a municipality and a home rule unit of government under Section 6(a) of Article VII of the 1970 Constitution of the State of Illinois; and

Whereas, the availability of decent, safe and sanitary housing that most people can afford is essential to retain and increase industrial and commercial activities and relieve conditions of unemployment in the City of Urbana, Illinois; and

Whereas, the shortage of decent, safe and sanitary housing that most people can afford is not transitory and self-curing; the cost of financing such housing is a major and substantial factor affecting the supply and cost of decent, safe and sanitary housing built by private enterprise; and the revenue bonds provided for in this resolution will substantially lower the cost of such financing; and

Whereas, pursuant to the Constitution and the laws of the State of Illinois, and particularly Section 6(a) of Article VII of the 1970 Constitution of the State of Illinois, the Issuer has the power to issue its revenue bonds to aid in financing the cost of mortgage loans for one to four family residences in the City of Urbana, Illinois; and

Whereas, it is now considered to be necessary and desirable and in the public interest of the residents of the City of Urbana, Illinois, for such revenue bonds to be issued in an amount not to exceed \$600,000,000 in each of the next three (3) years, for the purpose of financing mortgage loans to low and moderate income persons for one to four family residences in the City of Urbana, Illinois; and

Whereas, pursuant to the Constitution and the laws of the State of Illinois, and particularly Section 10 of Article VII of the 1970 Constitution of the State of Illinois and 5 Illinois Compiled Statutes 2006, 220/1 et seq., as supplemented and amended (the "Intergovernmental Cooperation Act"), public agencies may exercise and enjoy with any other public agency in the State of Illinois any power, privilege or authority which may be exercised by such public agency individually, and pursuant to the Act, one or more public agencies (whether or not any of them are home rule units) may join together or cooperate with one another in the exercise, either jointly or otherwise, of any one or more of the powers conferred by the Act or other enabling acts or powers pursuant to a written agreement, and, accordingly, the Issuer has previously entered into an Intergovernmental Cooperation Agreement (the "Cooperation Agreement") dated as of April 1, 2005, by and among the Issuer and certain other units of local government named therein (the "Units"), as from time to time supplemented and amended, to provide for the joint issuance of such revenue bonds to aid in providing an adequate supply of residential housing in such Units (the "Program");

Now, Therefore, Be It Resolved by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1. That, in order to provide decent, safe and sanitary housing that persons of low and moderate income in the City of Urbana, Illinois, can afford, with the resulting public benefits expected to flow therefrom, it is deemed necessary and desirable for revenue bonds in an aggregate principal amount not to exceed \$600,000,000 to be issued in each of the next three (3) years (the "Bonds"), for the purpose of financing mortgage loans to persons of low and moderate income for one to four family residences located in the City of Urbana, Illinois.

Section 2. That the form, terms and provisions of the Cooperation Agreement be, and they are hereby in all respects affirmed.

Section 3. That the Issuer hereby transfers to the City of Aurora, Kane, DuPage, Will and Kendall Counties, Illinois, as the issuer of the Bonds, and hereby allocates to the issuance of the Bonds, its volume cap for calendar year 2008 in the amount of \$1,642,966, which volume cap has not been transferred or allocated to any other issue; and that the Issuer is hereby authorized to apply for a volume cap allocation for calendar years 2008, 2009 and 2010 for the issuance of the Bonds, which volume cap, if granted, will be allocated to the issuance of the Bonds upon the written direction of the Mayor of the Issuer who is hereby authorized to execute any such written direction.

Section 4. That the Issuer hereby agrees to work with Stern Brothers & Co. to underwrite the Bonds and with Chapman and Cutler LLP, as Bond Counsel, in connection with the issuance of the Bonds during calendar years 2008, 2009 and 2010.

Section 5. That the Mayor, the City Clerk and all other proper officers, officials, agents and employees of the Issuer are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents and certificates as may be necessary to further the purposes and intent of this resolution, including without limitation to obtain an allocation of unified volume cap.

Section 6. That the provisions of this resolution are hereby declared to be separable, and if any section, phrase or provision of this resolution shall for any reason be declared to be invalid, such declaration shall not affect the remainder of the sections, phrases and provisions of this resolution.

Section 7. That all ordinances, resolutions or orders, or parts thereof, in conflict herewith are, to the extent of such conflict, hereby superseded; and that this resolution shall be in full force and effect upon its adoption and approval.



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

AYES:

NAYS:

ABSTAINS:

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

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

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Laurel Lunt Prussing, Mayor