



DEPARTMENT OF COMMUNITY DEVELOPMENT SERVICES

Grants Management Division

m e m o r a n d u m

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

FROM: Kelly Mierkowski, Manager, Grants Management Division *KHM*

DATE: March 23, 2012

SUBJECT: ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN INTERGOVERNMENTAL COOPERATION AGREEMENT AND CERTAIN DOCUMENTS IN CONNECTION THEREWITH; AND RELATED MATTERS (Assist MCC Program)

Description

Included on the agenda of the March 27, 2012 Urbana Community Development Commission meeting is an Ordinance authorizing the Mayor to execute an intergovernmental cooperation agreement which will allow the City to participate in a new Mortgage Credit Certificate (MCC) product now offered by Stern Brothers & Company.

This agreement is similar in nature to an agreement that the City entered into in 2001, which authorized the use of the City's Private Activity Bond Cap for a down payment assistance program known locally as AssistUrbana. Stern Brothers & Co. is now offering a new product that provides qualified homebuyers an opportunity to access down payment assistance in combination with MCC, which is a federal income tax credit that reduces a homeowner's tax liability each year for up to 30 years. Execution of this agreement will allow the City's carryover bond cap to be used for this aspect of the program.

Background

The AssistUrbana Program was first started under the name of AccessUrbana in 1995 and assisted over 130 families in purchasing homes in Urbana between 1995 and 2000. The program provided non-repayable, non-taxable grants for down payment and closing costs up to 4.25 percent of the home mortgage amount. The program was marketed jointly by the city and bank personnel through direct mailers, seminars, and media advertising.

The bond counsel that helped create the AccessUrbana Program statewide for many Illinois communities notified city staff of its intent to create a new Assist Program in 2001. In March, 2001, the Urbana City Council voted to approve *An Ordinance Authorizing the Execution and Delivery of an Intergovernmental Cooperation Agreement and Certain Documents in Connection*

Therewith: and Related Matters (AssistUrbana Program - AssistUrbana Series 2001), which authorized Stern Brothers & Co. to use the City of Urbana’s bond cap for the AssistUrbana Program. Since then, the City has ceded a portion of its bond cap over the years towards this effort, and another 140 families have benefitted from the down payment and closing cost assistance provided through the program.

In 2010, the program began to lag due to a poor bond market. The bond counsel attempted to resume the program in 2011 but found that the program was not reaching a comparable number of homebuyers as it had in past years. At the same time, the Illinois Housing Development Authority (IHDA) indicated that it would no longer accept bond cap allocations for its longstanding MCC Program. The local communities of Champaign and Urbana recognized a need for this program and asked Stern Brothers & Co. if a new product could be offered that would allow the cities to invest in such a program.

Stern Brothers & Co. has responded to this request and has executed an agreement in October, 2011 through the City of Aurora, Kane, DuPage, Will and Kendall Counties, Illinois (the Issuer) to begin offering an MCC product in conjunction with the Assist Program.

Similar to IHDA’s MCC Program, the Assist MCC Program will allow homebuyers to benefit from an annual federal income tax credit which reduces their overall tax liability and results in a cash savings on their mortgage. An example of today’s savings is listed below:

| | <u>Taxes Without MCC</u> | <u>Taxes With MCC</u> |
|--|--------------------------|-----------------------|
| Mortgage Amount | \$100,000 | \$100,000 |
| Mortgage Interest Rate | 5.00% | 5.00% |
| Monthly Mortgage Payment | \$536 | \$536 |
| <i>(first year interest = \$4,944)</i> | | |
| MCC rate | N/A | 25% |
| Monthly Credit Amount (1 st Year Avg.) | — | \$103 |
| “Effective” Monthly Mortgage Payment | \$536 | \$433 |
| Annual Tax Savings (1st Year Avg.) | — | \$1236 |

In the example above, the homeowner paid \$4,944 in interest during the first year of payment and will be able to claim 25 percent of this interest, or \$1236, as a federal income tax credit. Assuming the homeowner does not owe any additional taxes that year, he or she will receive a federal tax refund in the amount of \$1236.

This type of program provides homeowners with long-term savings over a 30 year period and will increase the affordability of homeownership for those participating in the program. The income limits are higher than many other programs offered through the Illinois Housing Development Authority (IHDA), which will allow for a greater pool of homebuyers to benefit from the program.

The City's original intergovernmental cooperation agreement signed in 2001 is still in effect. The attached agreement will allow the City's carryover bond cap, which was ceded to Stern Brothers & Co. in past years, to also be used to provide the MCC component to homebuyers already taking advantage of the AssistUrbana Program. The City's carryover bond cap will be eligible for use in this program as soon as the agreement is executed. The program itself is expected to begin April 1, 2012.

Options

1. Forward the Ordinance Authorizing the Execution and Delivery of an Intergovernmental Cooperation Agreement and Certain Documents in Connection Therewith; and Related Matters to the Urbana City Council with a recommendation for approval.
2. Forward the Ordinance to the Urbana City Council with a recommendation for approval with suggested changes.
3. Do not recommend that Urbana City Council approve the Ordinance.

Fiscal Impacts

There will be no fiscal impact to the City Budget as a result of executing this agreement.

Recommendation

Staff is recommending CDC vote to forward the Ordinance with a recommendation for approval to the Urbana City Council.

Memorandum Prepared By:


Jen Gonzalez, Grant Coordinator
Grants Management Division

Attachments:

- 1) ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN INTERGOVERNMENTAL AGREEMENT AND CERTAIN DOCUMENTS IN CONNECTION THEREWITH; AND RELATED MATTERS (Assist MCC Program)
- 2) Assist MCC Program Description Sheet

ORDINANCE NO. _____

ORDINANCE AUTHORIZING THE EXECUTION AND DELIVERY OF AN INTERGOVERNMENTAL
COOPERATION AGREEMENT AND CERTAIN DOCUMENTS IN CONNECTION THEREWITH; AND
RELATED MATTERS

(Assist MCC Program)

WHEREAS, pursuant to Section 6(a) of Article VII of the 1970 Constitution of the State of Illinois, the City of Urbana, Champaign County, Illinois, is a municipality and a home rule unit of government duly organized and validly existing under the Constitution and the laws of the State of Illinois (the "Municipality"); 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 Municipality is authorized to issue mortgage credit certificates in order to aid in providing an adequate supply of safe, decent and sanitary residential housing for low and moderate income persons and families within the Municipality, which such persons and families can afford, which constitutes a valid public purpose for the issuance of mortgage credit certificates by the Municipality; and

WHEREAS, the Municipality has now determined that it is necessary, desirable and in the public interest to issue mortgage credit certificates to provide an adequate supply of safe, decent and sanitary residential housing for low and moderate income persons and families within the Municipality, which such persons and families can afford; and

WHEREAS, pursuant to Section 10 of Article VII of the 1970 Constitution of the State of Illinois and the Intergovernmental Cooperation Act (5 Illinois Compiled Statutes 2010, 220/1 et seq., as supplemented and amended), 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, accordingly, it is now determined that it is necessary, desirable and in the public interest for the Municipality to enter

into an Intergovernmental Cooperation Agreement (the "Cooperation Agreement") dated as of October 1, 2011, by and among the Municipality and certain other units of local government named therein (the "Units"), to provide for the joint issuance of such mortgage credit certificates to aid in providing an adequate supply of residential housing in such Units (the "Program"); and

WHEREAS, to provide for the Program, the City of Aurora, Kane, DuPage, Will and Kendall Counties, Illinois (the "City") proposes to issue mortgage credit certificates in an aggregate principal amount not to exceed \$600,000,000 (the "MCCs") and to implement the Program from time to time by allocating the MCCs to certain qualified mortgage loans under the Program from time to time (the "Mortgage Loans"), on behalf of the Municipality and the other Units all under and in accordance with the Constitution and the laws of the State of Illinois; and

WHEREAS, a notice to the public and all interested mortgage lenders of the intent to implement the Program through the issuance of the MCCs has been or will be published in The News-Gazette, a newspaper of general circulation in the Municipality, pursuant to Section 25 of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, a form of the Cooperation Agreement has been presented to and is before this meeting.

NOW, THEREFORE, Be It Ordained by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1. That it is the finding and declaration of the City Council of the Municipality that the issuance of the Mortgage Credit Certificates by the City and the implementation of the Program is advantageous to the Municipality, as set forth in the preamble to this authorizing ordinance, and therefore serves a valid public purpose; that this authorizing ordinance is adopted pursuant to the Constitution and the laws of the State of Illinois, and more particularly Section 6(a) of Article VII of the 1970 Constitution of the State of Illinois, Section 10 of Article VII of the 1970 Constitution of

the State of Illinois and the Intergovernmental Cooperation Act; and that, by the adoption of this authorizing ordinance, the City Council of the Municipality hereby approves the issuance of the MCCs by the City and the implementation of the Program for the purposes as provided in the preamble hereto, the text hereof and the notice of intent to implement the Program referred to in the preamble hereto, which notice is hereby incorporated herein by reference.

Section 2. That the form, terms and provisions of the proposed Cooperation Agreement be, and they are hereby, in all respects approved; that the Mayor of the Municipality be, and is hereby, authorized, empowered and directed to execute, and the City Clerk of the Municipality be, and is hereby, authorized, empowered and directed to attest and to affix the official seal of the Municipality to, the Cooperation Agreement in the name and on behalf of the Municipality, and thereupon to cause the Cooperation Agreement to be delivered to the other Units; that the Cooperation Agreement is to be in substantially the form presented to and before this meeting and hereby approved or with such changes therein as shall be approved by the officer of the Municipality executing the Cooperation Agreement, his or her execution thereof to constitute conclusive evidence of his or her approval of any and all changes or revisions therein from the form of Cooperation Agreement before this meeting; that from and after the execution and delivery of the Cooperation Agreement, the officers, officials, agents and employees of the Municipality are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of the Cooperation Agreement as executed, including without limitation any allocations of unified volume cap to the issuance of the MCCs and the implementation of the Program; and that the Cooperation Agreement shall constitute and is hereby made a part of this authorizing ordinance, and a copy of the Cooperation Agreement shall be placed in the official records of the Municipality, and shall be available for public inspection at the principal office of the Municipality.

Section 3. That the Mayor, the City Clerk and the proper officers, officials, agents and employees of the Municipality 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 carry out and comply with the provisions of the Cooperation Agreement and to further the purposes and intent of this authorizing ordinance, including the preamble to this authorizing ordinance.

Section 4. That all acts of the officers, officials, agents and employees of the Municipality heretofore or hereafter taken, which are in conformity with the purposes and intent of this authorizing ordinance and in furtherance of the issuance and sale of the MCCs and the implementation of the Program, be, and the same hereby are, in all respects, ratified, confirmed and approved, including without limitation the publication of the notice of intent to implement the Program.

Section 5. That the Mayor of the Municipality is hereby authorized to request unified volume cap from the Office of the Governor of the State of Illinois for the Program in each of the years of 2011, 2012, 2013 and 2014; that the Municipality hereby allocates all unified volume cap received or to be received by the Municipality from the Office of the Governor of the State of Illinois for the Program, if any, to the issuance of the MCCs; and that the Municipality, by the adoption of this authorizing ordinance, hereby represents and certifies that such volume cap has not been and will not be allocated to any other bond issue or transferred back to the Office of the Governor or otherwise.

Section 6. That after the Cooperation Agreement is executed by the Municipality, this authorizing ordinance shall be and remain irrevocable until the MCCs shall have been fully allocated.

Section 7. That the provisions of this authorizing ordinance are hereby declared to be separable, and if any section, phrase or provision of this authorizing ordinance shall for any reason be declared to be invalid,

such declaration shall not affect the validity of the remainder of the sections, phrases and provisions of this authorizing ordinance.

Section 8. That all ordinances, resolutions and orders, or parts thereof, in conflict with the provisions of this authorizing ordinance are, to the extent of such conflict, hereby superseded; and that this authorizing ordinance shall be in full force and effect upon its adoption and approval as provided by law.

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

Assist 2011 Homebuyer Assistance

Affordable home ownership for families

Program Outline

Utilizing a two-pronged approach to assist homebuyers, the program is sponsored by communities throughout the state to promote home ownership. The home buyer assistance feature of the *Assist 2011* program provides families with funds to pay all or most of their closing costs and down payment, enabling families with good credit but little available capital to buy their first home.



The mortgage credit certificate (“MCC”) feature reduces the homebuyer’s ongoing cost of borrowing whenever market conditions result in uncompetitive interest rates for loans funded in the tax-exempt bond market.

Overview

- Communities join together through an Inter-governmental Cooperation Agreement.
- Home rule communities may contribute private activity bond volume cap to support either a tax-exempt bond issuance or the MCC feature
- Non-home rule communities apply for volume cap from the State
- No financial contribution or commitment required from any participant
- Any Illinois municipality can participate

Loan Funding

- Loans are funded with proceeds of tax-exempt bonds or through the direct sale of taxable mortgage-backed securities based on the sale method providing the lowest interest rate
- The bonds and securities are sold at a premium, a price greater than their face amount, which provides funding for the home buyer assistance
- Proceeds of the bonds and securities are used to make the home loans and fund the assistance
- The bonds and securities are not a debt of the municipalities or paid from any participating community’s funds, and are secured only with loans on homes purchased with **Assist 2011**
- The City of Aurora acts as issuer on behalf of all the communities

Loan Description

- 30 year fixed rate loans
- FHA/VA loans available
- **Assist** pays 3% cash assistance to qualifying home buyers to fund closing costs and down payment assistance
- Loans are funded with proceeds of tax-exempt bonds or direct sale of mortgage-backed securities

Qualifying Homebuyers

- First time home buyers (not owned residence in three years)
- Will occupy the home as their residence
- Meet income guidelines
- Meet purchase price guidelines

Mortgage Credit Certificates

- MCC's are a federally authorized program created as an alternative to tax-exempt housing bonds to reduce effective interest costs for qualifying homebuyers
- MCC's allow the homebuyer to qualify for a federal income tax credit equal to a percentage of the interest paid on their home loan each year
- MCC holders still qualify for a regular deduction of the remaining interest paid on their home loan

| | Without MCC | With MCC |
|--|-------------|-----------|
| Mortgage Amount | \$100,000 | \$100,000 |
| Mortgage Interest Rate | 5.00% | 5.00% |
| Monthly Mortgage Payment (first year interest = \$4,966.49) | \$536.82 | \$536.82 |
| MCC Rate | N/A | 25% |
| Monthly Credit Amount (First Year Average) (25% of \$4,966.49 is first year credit) | N/A | \$103.47 |
| "Effective" Monthly Mortgage Payment | \$536.82 | \$433.35 |

Assist 2011 Advantages

- Provides additional home ownership opportunities in each Community
- Home ownership provides added stability in a community
- Serves the large segment of potential home buyers who qualify for loans but lack funds for a down payment and closing costs
- Strategic alliance with lenders throughout the state
- Customized marketing in each municipality
- No out-of-pocket expense to any community to participate

Program Details

| | |
|-------------------------------------|---------------------|
| Total Home Buyer Assistance: | 4.75% (est.) |
| Closing Costs and Down Payment: | 3.00% |
| Origination Fee: | 1.75% (est.) |