

Reply to Common Council File No. 001702

From DOA-Budget and Management Division

October 4, 2001

Ref: 01010 (19)

Common Council File No. 001702 contains a substitute resolution authorizing and directing the Commissioners of Public Debt to issue and sell Housing Rehabilitation Revenue Bonds in a principal amount not to exceed \$5,000,000 for the purpose of creating a Housing Rehabilitation Revolving Loan Fund.

The target of this loan fund is CDBG area homeowners who are unable to obtain Home Improvement Loans due to high Loan to Value (LTV) ratios. These applicants would otherwise qualify for a loan given their sufficient income and good credit histories.

Whether a substantial under-served market actually exists is questionable. (Up to 1,000 loans of \$5,000 each may be issued from the \$5,000,000 fund.) High LTV (or insufficient collateral) was a reason for denial of only 81 applications or 11.7% of denied minority applications in the Milwaukee-Waukesha Metropolitan Statistical Area in the year 2000 per Home Mortgage Disclosure Act compiled data. The "Home Improvement Denials by Race, Gender, and Income of Applicant Report" was dated June 9, 2001.

Far more common reasons for minority home improvement loan application denials were poor credit history (54%) and high debt-to-income ratios (19.2%). Several public and private initiatives have been implemented or are in process to address consumer education regarding credit history and personal finance.

The need to increase home improvement lending in the Target Area (basically the CDBG area) has been identified by the Comptroller's 2001 Annual Review of Lending Practices of Financial Institutions Report and other organizations such as FannieMae and the Wisconsin Housing & Economic Development Authority (WHEDA). Programs have been developed such as the Home Improvement Capital Access Program (HICAP), Department of Neighborhood Services (DNS) Home Rehabilitation and Greenline programs, the WHEDA Home Improvement Loans. These programs are apparently underutilized per "The Community Response to the Lending Gap" Report of the FannieMae Wisconsin Partnership Office dated April 2001. Implementing committees have been established to address the challenges identified and develop further initiatives to resolve the Lending Gap.

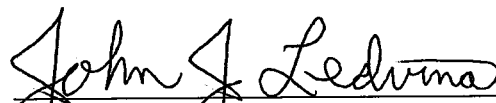
Several other obstacles exist to establishing the Housing Rehabilitation Revolving Loan Fund.

- No 2001 Borrowing Authority exists.
- There is no demonstrated revenue stream from which to repay the Revenue Bonds to be issued. As a result, the marketability of the Revenue Bonds would be questionable.

- A Master Resolution authorizing the future issuance of the Housing Rehabilitation Revenue Bonds and providing other details and covenants would have to be drafted. This would be very similar to the Sewerage System Revenue Bonds Resolution 991863 adopted August 2, 2001.
- A subsequent Series resolution detailing a specific issue would need to be adopted.
- Annual debt service would be approximately \$440,000-\$480,000 for 20 years per the Comptroller's Office.

These "mechanical" problems are crucial given the relatively small \$5,000,000 bond amount proposed to be issued. Such an issue may not be economically feasible.

RECOMMENDATION: DO NOT APPROVE FILE 001702 AUTHORIZING THE ISSUANCE OF HOUSING REHABILITATION REVENUE BONDS IN A PRINCIPAL AMOUNT NOT TO EXCEED \$5,000,000 FOR THE PURPOSE OF CREATING A HOUSING REHABILITATION REVOLVING LOAN FUND.



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