

## LRB-FISCAL REVIEW SECTION ANALYSIS

MAY 7, 2002 AGENDA

ITEM 22, FILE 011743

ZONING, NEIGHBORHOOD & DEVELOPMENT COMMITTEE

JAMES CARROLL

File #0011743 is a substitute resolution authorizing and directing the City Comptroller and the Public Debt Commission to sell \$5,000,000 double tax-exempt Housing Rehabilitation Revenue Bonds, the proceeds of which are to be administered by the Neighborhood Improvement Development Corporation (NIDC) within the Department of Neighborhood Services.

### **Background**

1. The intent of this resolution is to assist City of Milwaukee home owners who are unable to obtain home rehabilitation loans because they have high loan to value ratios. (A loan to value ratio is a lending risk ratio calculated by dividing the total amount for a mortgage or loan by the value of the property) These homeowners have incomes that exceed the income limits for the housing rehabilitation programs administered by NIDC and may or may not live in the CDBG area.
2. The Neighborhood Improvement Development Corporation (NIDC) is a non-profit corporation established in 1973 to assist and encourage reinvestment in residential property as part of an overall neighborhood economic stabilization strategy. Programs include encouraging investments by private lending institutions and property owners by providing financial assistance in the forms of grants, rehabilitation loans and interest subsidy payments on conventional loans.
  1. NIDC administers four programs to assist home owners in the CDBG area:
    - Home Rehabilitation Loan Program
    - Deferred Payment Loan Program
    - Neighborhood Improvement Project (NIP)
    - Targeted Investment Neighborhood Program (TIN)
  2. The Home Rehabilitation Loan Program, Deferred Payment Loan Program and the NIP have income eligibility requirements. In order to qualify for assistance under the Home Rehabilitation Loan Program and the Deferred Payment Program, an applicant's income must not exceed 80% of the County Median Income (CMI). Eligibility for the NIP is limited to 50% of the CMI. The TIN program has no income eligibility requirements.

3. The income limits for the existing programs, adjusted for family size are shown in the table below:

<b>Household Size</b>	<b>50% of CMI</b>	<b>80% of CMI</b>
1	\$23,500	\$37,560
2	\$26,900	\$43,000
3	\$30,250	\$48,400
4	\$33,600	\$53,750
5	\$36,300	\$58,050
6	\$39,000	\$62,350
7	\$41,650	\$66,650
8	\$44,350	\$70,950

4. The Finance and Personnel Committee referred a similar resolution (#001702) to the Comptroller's Office on October 10, 2001. The Comptroller's Office held to meetings with representatives from housing groups on October 25, 2001 and November 15, 2001  
In the Comptroller's meetings with the housing groups the following was determined:

- A homeowner's loan to value ratio may only be part of the problem with the ability to secure a loan. Credit history and debt ratio are also important.
- The Wisconsin Housing and Economic Development Authority (WHEDA) offers a non-equity loan product (e.g. loan to value not an issue) to homeowners. Recently, WHEDA dropped a complex insurance process that was previously required for this product. WHEDA is looking to expand the use this product.
- Neighborhood Housing Services (NHS) recently developed a Home Improvement Loan Program (HILP). This is a special 2<sup>nd</sup> mortgage loan product where NHS becomes a central "intake center" for attracting and informing potential applicants, many of whom do not have a regular banking relationship. Credit counseling is also provided. Loans are up to \$25,000 and have up to a 15-year term. The maximum loan-to-value ratio is 115%. Credit scores will be reviewed but won't automatically dictate the lending decision. Generally, the maximum debt ratio is 45%. The City is participating by providing \$75,000 for program administration. NHS estimates it will make 100 loans at an average of \$10,000 per loan in first year of the program.
- The group also concluded there is a need for an increased and coordinated promotion effort on the programs that are available.
- The Comptroller and the other participating organizations agreed to continue to monitor the progress of the various new and existing programs for a period of at least one-year. At that time, an assessment can be made regarding the need to enter into a risk sharing agreement or the creation of a new program

## **Discussion**

1. The resolution authorizes and directs the Public Debt Commission to issue Housing Rehabilitation Revenue Bonds in a principal amount not to exceed \$5,000,000. The home loans would be administered by NIDC. The loans would be made in amounts not to exceed \$40,000 to credit-worthy homeowners who have incomes which exceed 80% of the median income for the Milwaukee Metropolitan area and have existing loan-to-value ratios which exceed 100% of assessed values.
2. The resolution authorizes the Public Debt Commission to issue and sell \$5 million in Housing Rehabilitation Revenue Bonds. Before these bonds can be issued, the Public Debt Commission has to determine if it would be able to issue revenue bonds for this purpose. Details of a revenue bond issuance, such as the payment stream and how reliable it is, have to be determined.
3. The resolution authorizes NIDC to provide for the administration of the loans. According to NIDC, before the a loan program can be implemented, the following items will have to be determined:
  - Interest rate of the Revenue Bonds.
  - Bond issuance costs.
  - Interest rate of the loans that will be made and the estimated demand for such loans.
  - Loan default rate.
  - Loan reserve amounts.
  - Administrative costs:
    - Application processing
    - Loan collections
    - Bankruptcy proceedings
    - Loan foreclosures
    - Loan servicing including assumptions and subordinations
    - Accounting and reporting.
4. Authorization for this issuance is not included in the 2002 Budget.

## **Fiscal Impact**

The intent of the resolution is to have no impact on the tax levy. However, the fiscal impact, if any, of the resolution cannot be determined until items, such if the bonds are marketable, the fund's administration policy, the size of bond issue, etc., are developed.

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