

Reply to Common Council File No. 011743

From DOA-Budget and Management Division

April 11, 2002

Ref: 02010 (025)

Common Council File No. 011743 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 making home rehabilitation loans. This file is similar to File No. 001702 heard at the October 10, 2001 Finance and Personnel Committee meeting. At that time, File No. 001702 was held by the committee. The Comptroller's Office was asked to review the need for such a program and the feasibility of such a debt issue.

The purpose of File No. 011743 is to make home rehabilitation loan funds in an amount not to exceed \$40,000 available to credit-worthy homeowners who have incomes which exceed 80% of the median income for the Milwaukee metropolitan area and who have existing loan-to-value (LTV) ratios that exceed 100% of the assessed value. (Note that the 2001 median household income for the Milwaukee metro area was \$67,200. Eighty percent of the median income is \$53,760.) Language in the file suggests that such a segment of the home improvement loan market is currently under-served.

At the Committee's request, the Comptroller held two meetings (in October and November 2001) with a group of several home lending agencies and lenders. These organizations included the Neighborhood Improvement Development Corporation (NIDC), the City Department of Neighborhood Services (DNS), the City Department of City Development (DCD), New Opportunities for Homeownership in Milwaukee (NOHIM), the Wisconsin Housing and Economic Development Authority (WHEDA), Neighborhood Housing Services (NHS), and Local Initiatives Support Corporation (LISC) as well as several area lenders.

WHEDA had recently changed its home improvement loan product, dropping its loan to value requirement. NHS also developed a loan program with a 115% loan to value limit. **The meetings concluded that these initiatives and broadening other existing programs to include the target group should be tried prior to establishing a new program such as currently proposed.** A point was also made that the numerous programs presently available have tended to confuse potential applicants and lenders.

The need to increase home improvement lending in the City, particularly the central city, 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, such as NOHIM, have been

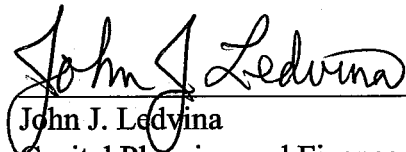
established to address the challenges identified and develop further initiatives to resolve the Lending Gap.

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

- No 2002 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 substantial loss reserve would need to be established, decreasing the amount of proceeds which could be lent out.
- 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. Adjustments to existing programs such as advocated by WHEDA and NHS would be a prudent alternative to increase home improvement lending in the city.

RECOMMENDATION: DO NOT APPROVE FILE 011743 AUTHORIZING THE ISSUANCE OF HOUSING REHABILITATION REVENUE BONDS IN A PRINCIPAL AMOUNT NOT TO EXCEED \$5,000,000 FOR THE PURPOSE OF MAKING HOME REHABILITATION LOANS.



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