LRB-FISCAL REVIEW SECTION ANALYSIS

MAY 14, 2002 AGENDA **ITEM 1, FILE 011743**

FINANCE & PERSONNEL COMMITEE **JAMES CARROLL**

File #0011743 is a substitute resolution authorizing and directing the Housing Authority and/or Redevelopment Authority 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.

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.

3. 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)

4. 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.

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

Household Size	50% of CMI	80% of CMI
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

Discussion

1. The resolution establishes a seven-member advisory committee to provide recommendations to the Common Council regarding the design elements necessary for the loan program's initial year's implementation. The advisory committee's recommendations are to include the manner in which the program could be designed to enhance existing rehabilitation loan programs. The advisory committee is to report to the Common Council within 3 weeks of the effective date of the resolution. The advisory committee will consist of the following:

   - Commissioner of the Department of City Development
   - Comptroller
   - Executive director of NIDC
   - Director of Budget and Management
   - Director of the Milwaukee Office of the Local Initiative Support Corporation
   - Vice President for Community Relations of Bank One-Milwaukee
   - Director of Select Milwaukee

2. The resolution authorizes and directs the Housing Authority and/or Redevelopment Authority to issue Housing Rehabilitation Revenue Bonds in a principal amount not to exceed $5,000,000. The home loan program would be administered by NIDC. The loans would be made in amounts not to exceed $40,000 to credit-worthy homeowners residing the CDBG area 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.

Fiscal Impact

The resolution has no fiscal impact. Further Common Council and HACM/RACM action is required in order to implement the loan program and issue bonds. The intent of the resolution is to develop a loan program that has no impact on the tax levy. However, the fiscal impact, if any, of the loan program cannot be determined until items, such as the marketability of the bonds, the loan program's administration policy, etc. are developed.

Other Information

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 is 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 2nd 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

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