



**Council  
Communication**  
Office of the City Manager

Date

April 10, 2006

Agenda Item No. 37

Roll Call No. 06-

Communication No. 06-204

Submitted by: Larry Hulse, Community  
Development Director

**AGENDA HEADING:**

Resolution Approving the Neighborhood Finance Corporation (NFC) Program Changes in the Phase XI Private Placement Offering.

**SYNOPSIS:**

Recommend approval of changes to Neighborhood Finance Corporation's (NFC) Phase XI Private Placement Offering. Through this program, \$13,500,000 is offered to local financial institutions to raise capital for NFC's ongoing neighborhood revitalization program. As required by the 28E Agreement, the City of Des Moines must approve any proposed changes to the Neighborhood Finance Corporation's proposed lending programs. The NFC is proposing adjustable rate mortgage (ARM) products in its Phase XI Offering.

**FISCAL IMPACT: NONE**

Amount:

Funding Source:

**ADDITIONAL INFORMATION:**

A central part of the Neighborhood Revitalization Program was the creation of the Neighborhood Finance Corporation (NFC), which provides the necessary housing financing to implement a variety of city neighborhood revitalization programs. NFC's mission is to provide unique lending programs and related services to help revitalize targeted neighborhoods in Polk County through partnerships with residents, government bodies, community-based organizations and the business community. Since NFC began lending in 1991 through December 31, 2005, NFC has originated over \$134,971,611 in loans and grants that have assisted more than 2,500 housing units which have helped to revitalize Des Moines' older neighborhoods.

NFC receives approximately \$1 million from the City and county annually. These payments are funded through general obligation bonds. NFC uses these grants to fund forgivable loans that are used for home improvements, closing-cost assistance, loan guarantees and construction loans. The City and county

directly benefit from NFC's use of these funds, as the property values of homes that NFC has financed increase dramatically. To effectively leverage loan funds, NFC has entered into master loan participation agreements with 13 area financial institutions, Fannie Mae and the Iowa Finance Authority, to sell loan participations made under NFC's various programs.

On July 8, 2002, the City of Des Moines approved a new five year 28E Agreement with the NFC and Polk County for the period of July 1, 2002 to June 30, 2007. Section 10b of the 28E Agreement requires that any changes in the housing programs and lending areas of the NFC be approved by the City Council and the Polk County Board of Supervisors. The Board of Supervisors is scheduled to take action on the Phase XI changes on Wednesday, April 12, 2006.

Neighborhood Finance Corporation's (NFC) Phase XI Private Placement Offering for \$13,500,000 of loan participation interests is offered to local financial institutions to raise capital for NFC's ongoing neighborhood revitalization program. Phase XI will raise \$27,500,000 of capital consisting of \$13,500,000 million from local financial institutions, \$9,000,000 of loans sold to Fannie Mae, and \$5,000,000 of city and county funds.

Along with the purchase/rehabilitation and home improvement products NFC offered in past phases, NFC is offering in Phase XI adjustable rate mortgage (ARM) products. This will be the first time that NFC has offered ARM loan products to investors or to Fannie Mae. In its Master Loan Commitment entered into with Fannie Mae on January 31, 2006, NFC was approved to originate and sell to Fannie Mae any ARM loan products that accord with its selling guide. NFC contemplates originating and selling 5/1 ARM products, perhaps including ARM products that could be converted to a fixed rate of interest. In a 5/1 ARM the initial interest rate remains fixed for the first five years of the loan. The rate will then adjust every year after that, on the anniversary date of the loan. The lifetime cap for interest rate change will be 5%, and annual change cap will be 2%. NFC does not intend to deeply discount the initial rates on these loans. NFC is offering this product as an affordable alternative to a fixed rate loan, to help more borrowers qualify for entry in to home ownership.

#### **PREVIOUS COUNCIL ACTION(S):**

Date: February 23, 2004

Roll Call Number: 04-425

Action: Neighborhood Finance Corporation Program changes to Rehabilitation Loan Program and Program Lending Areas. ([Council Communication No. 04-099](#)) Moved by Vlassis to adopt. Motion Carried 7-0.

Date: July 8, 2002

Roll Call Number: 02-1768

Action: Intergovernmental 28E Agreement with Neighborhood Finance Corporation and Polk County to provide necessary housing finance programs to implement a variety of City neighborhood revitalization programs for the period of July 1, 2002 to June 30, 2007. (Council Communication No. 02-353) Moved by Hensley to adopt. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S):**

Date: April 5, 2005

Roll Call Number: NA

Action: Approval of Phase XI Offering Program Changes

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**