



Council Communication

Office of the City Manager

Date

February 8, 2010

Agenda Item No. 55
Roll Call No. 10-
Communication No. 10-065
Submitted by: Larry Hulse, Community
Development Director

AGENDA HEADING:

Approve an agreement with the Neighborhood Finance Corporation (NFC) to provide acquisition financing for the Neighborhood Stabilization Program (NSP) and supporting documents to implement the program.

SYNOPSIS:

At the December 21, 2009 meeting, Council approved an amendment to the City's Neighborhood Stabilization Program plan to provide acquisition and rehabilitation financing for developers to acquire and rehabilitate foreclosed homes (Roll Call No. 09-2289). This agreement will allow the NFC to provide financing for eligible developers to acquire foreclosed homes. The NFC will be reimbursed using the City's NSP funds. In addition, there are two administrative documents, included with the roll call, that need to be amended to launch this new initiative.

FISCAL IMPACT:

Amount: \$1,200,000

Funding Source: The Iowa Department of Economic Development is providing funding from the Federal Neighborhood Stabilization Program Fund Title III of the Housing and Economic Recovery Act of 2008 (PL 110-289). No City matching funds are required.

ADDITIONAL INFORMATION:

The NSP plan was approved by the City Council in June 2009 (Roll Call No. 09-997). The plan calls for the City to use approximately \$1.2 million in NSP funds to work with non-profit and private developers to rehabilitate foreclosed homes. The plan was revised in December to allow the use of NSP funds to pay for developers to acquire and rehabilitate foreclosed homes.

An informational pre-application meeting was held on January 14 to discuss the revised program. Approximately 25 people attended this meeting. The City received six complete applications for the program.

Approved applicants are developers/contractors that have a proven track record of completing housing rehabilitation projects and possess the financial capacity to succeed in the program. At this time, it is anticipated that 8-12 houses will be selected for Phase I of the program. Each house in Phase I will have a subsidy of approximately \$25,000. Phase II of the program will begin when additional funds become available.

Federal program guidelines require funds be allocated on a reimbursement basis. Therefore, selected developers/contractors will need financing to acquire the properties. Because of the tight credit markets, this financing is difficult to obtain. The City is asking the NFC for assistance to fill this gap. Specifically, the NFC will provide a mortgage for the developer to acquire the foreclosed property.

A selected developer must submit a purchase agreement, along with a preliminary rehabilitation plan to the City. The City will perform a rehabilitation inspection and issue a feasibility report. Once that report is completed, a Preliminary Commitment Letter will be issued allowing the developer to work with the NFC to obtain acquisition financing.

The NFC will charge the developer a 1% origination fee along with 6% interest on the acquisition loan. Once the acquisition is completed, the City will use NSP funds to reimburse the NFC for the principle of the mortgage within 30 days. Upon sale of the home, the developer will repay the principal and interest to the NFC, who will reimburse the City. The NFC will keep the origination fee and 1% of the interest to administer the program.

The funds the NFC returns to the City will be considered program income and must be reinvested in NSP eligible activities. It is anticipated the program income will be used for future phases of this program. After July 31, 2013 any remaining program income must be returned to IDED.

In addition to the agreement with the NFC, there are two administrative documents that need to be revised to implement the new program. The first is a revision of "Attachment A" of the City's contract with the Iowa Department of Economic Development (IDED). Attachment A is the portion of the contract that describes the uses for the \$3.9 million in IDED funds.

This document has not been amended since IDED approved the City's NSP plan in April 2009. Since that time, the program has changed to involve acquisition and redevelopment of the Southern Meadows Apartments and the single family home program has been revised. These revisions allow the City to be reimbursed for these additional activities.

In addition to the Attachment A, staff needs to revise the NSP housing rehabilitation contract for the new program. The amended contract documents will allow the City to collect proceeds from the sale of the house and will allow the developer and realtor fees to be paid.

PREVIOUS COUNCIL ACTION(S):

Date: December 21, 2009

Roll Call Number: 09-2289

Action: Amendment to Neighborhood Stabilization Program (NSP) Plan to provide acquisition and rehabilitation financing for developers who acquire and rehabilitate foreclosed and abandoned properties. (Council Communication No. 09-876) Moved by Hensley to adopt. Motion Carried 7-0.

Date: October 26, 2009

Roll Call Number: 09-1931

Action: Amended Neighborhood Stabilization Program (NSP) Contract with the Iowa Department of Economic Development and related supporting Documents. (Council Communication No. 09-751) Moved by Vlassis to adopt. Motion Carried 7-0.

Date: February 23, 2009

Roll Call Number: 09-341

Action: On the City's plan to spend CDBG Neighborhood Stabilization Program Funds. (Council Communication No. 09-105) Moved by Coleman to adopt. Motion carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

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