

 <p style="text-align: center;"><b>Council Communication</b> Office of the City Manager</p>	<b>Date:</b> March 28, 2011
	<b>Agenda Item No.</b> 27 <b>Roll Call No.</b> <u>11-0524</u> <b>Communication No.</b> <u>11-186</u> <b>Submitted by:</b> Phil Delafield, Community Development Director

**AGENDA HEADING:**

Approval of Revised Agreements for the HUD, HOME Assisted Home Buyer Program.

**SYNOPSIS:**

By Roll Call No. 06-351 on February 20, 2006 the Des Moines City Council approved a Resale Agreement as a form of contract to administer the City’s Homebuyer project using HOME Investment Partnership Program Funds. A local nonprofit, Home Opportunities Made Easy, Incorporated (HOME, Inc.) has requested an amendment to the documents so that Home, Inc. can purchase houses at a discounted rate from the Federal Housing Administration (FHA) and use HOME funds for rehabilitation. The end-borrower could use FHA financing for purchase. The amendments concern costs the homeowner can recover if the house is sold during its affordability period.

**FISCAL IMPACT: NONE**

Amount: N/A

Funding Source: The Community Development Department’s Home Buyer program is funded through the U.S. Department of Housing and Urban Development’s HOME Investment Partnership Program (HOME), an entitlement program.

**ADDITIONAL INFORMATION:**

The HOME Program regulations set a “period of affordability” that relates to the resale of the property. This period is based on the amount of HOME funds provided for the property. Cities have two options for controlling the resale of the homebuyer property during the affordability period – the recapture option and the resale option. The “Resale Option” ensures that the HOME assisted unit remains affordable over the entire affordability term and is an option the City of Des Moines uses. It requires that if a property is sold during the period of affordability the new purchaser must meet the HOME definition of low income, serve as the new family’s principal residence and the sales price must be affordable to the new purchaser.

HOME, Inc. has frequently used City HOME financing for rehabilitation of units in its Acquisition/Rehabilitation program. For example, the units that HOME, Inc. has purchased from the Des Moines Municipal Housing Agency have all utilized such financing.

In October, 2010, HOME Inc. made an application to FHA for its program for Nonprofit Participation in Single Family Homes. The main benefit of such program is that HOME Inc. could purchase HUD

homes at a discount before they go on the open market. FHA reviewed the City's HOME documents and identified conflicts between FHA and HUD relating to restrictions on the resale of a property.

FHA regulations accept that in order to meet the HOME requirement, the resale price must be affordable to a low income owner. The City's HOME documents specifically read that the existing homeowner (seller) may include the average increase in assessed value and the return on any capital investments. The FHA program requires that the documents be amended to also allow the original purchase price, sales commission, cost of capital improvements and any approved negative amortization. These changes do not conflict with the HOME program guidelines for staff recommends the documents be approved.

Although the contract language will now allow negative amortization, City staff does not believe this is a good lending technique for a low income family. Negative amortization allows unpaid interest to be added to the principal of the loan. This can occur with an adjustable rate mortgage or a graduated payment mortgage. The City of Des Moines loan policies require that end financing be secured by a lender offering a fixed rate thirty year term. This policy will continue even with the amendment to the contract documents.

**PREVIOUS COUNCIL ACTION(S):**

Date: February 20, 2006

Roll Call Number: 06-351

Action: Revised HOME Agreements for buyers of homes in New Construction Program. ([Council Communication No. 06-081](#)) **Moved by Hensley to adopt. Motion Carried 7-0.**

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

For more information on this and other agenda items, please call the City Clerk's Office at 515-283-4209 or visit the Clerk's Office on the second floor of City Hall, 400 Robert D. Ray Drive. Council agendas are available to the public at the City Clerk's Office on Thursday afternoon preceding Monday's Council meeting. Citizens can also request to receive meeting notices and agendas by email by calling the Clerk's Office or sending their request via email to [cityclerk@dmgov.org](mailto:cityclerk@dmgov.org).