



Agenda Item:

69

COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 02/23/04
099

Communication No.: 04-

Agenda No.:	Item	Type:	Resolution	Roll	Call
-------------	------	-------	------------	------	------

Submitted by: Larry Hulse, Community Development Department

SUBJECT—

Approval of the program changes included in the Phase Ten Offering of the Neighborhood Finance Corporation (NFC)

SYNOPSIS—

As required by the 28 E Agreement, the City must approve any proposed changes to the NFC's proposed lending programs. As a part of the NFC'S Phase Ten offering, it is proposing a new 100% purchase rehabilitation loan product with no private mortgage insurance and is updating its lending area to include the 2000 Census low- to moderate income census tracts, except for the downtown census tract.

FISCAL IMPACT—

The proposed program changes do not effect the City's contribution.

RECOMMENDATION—

Approval

BACKGROUND—

A central part of the Neighborhood Revitalization Program was the creation of the Neighborhood Finance Corporation (NFC) , which provides the necessary housing finance programs 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, Iowa through partnerships with residents, government bodies, community-based organizations and the business community. Since 1991, NFC has originated over \$111,395,000 in loans and grants that have assisted more than 2,500 housing units in 18 designated neighborhoods in Des Moines as well as in low to moderate incomes areas.

NFC receives \$1 million plus from the city and county annually through a 28E agreement. 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, by Roll Call No. 02-1768, the City of Des Moines approved the extension of a new five year 28 E Agreement with NFC, and Polk County for the period of July 1, 2002 to June 30, 2007. Section 10 b of the 28 E Agreement requires that any changes in the housing programs and lending area be approved by the City Council and the Polk County Board of Supervisors.

Neighborhood Finance Corporation (NFC) Board of Directors at the January 21, 2004 meeting approved the Phase Ten Private Placement Offering for \$13 million of loan participation interests to be offered to local financial institutions to raise capital for NFC's ongoing neighborhood revitalization program. Phase Ten will raise \$25,930,000 of capital consisting of \$13 million from local financial institutions, \$8 million of loans sold to Fannie Mae, and \$4,930,000 of city and county funds. Phase Ten should raise enough capital to fund NFC's revitalization program over the next two years.

Along with the purchase/rehabilitation and home improvement products NFC offered in past Phases, NFC is offering in Phase Ten a new 100% purchase rehabilitation loan product with no private mortgage insurance (PMI). This product consists of a conventional 80% loan to value (LTV) first mortgage that will be sold to participating lenders or Fannie Mae with no PMI and a 20% second mortgage that will be sold to participating lenders. The first and second mortgages will be originated simultaneously and serviced by Nationwide Advantage Mortgage Company with a single coupon payment book and a single escrow account. First and second mortgage loans sold to investors under this 100% LTV no PMI program will be partially protected from loss incurred by the set aside of a segregated guarantee/first loss reserve fund equal to seven percent (7%) of the total amount of the loans sold to investors

Under NFC's current 28E agreement with the city and county at least 75% of Phase Ten Loan Program lending will be made within the nine approved designated neighborhoods. Up to 25%

of Phase Ten Loan Programs are available for the low-to moderate-income census tracts located outside the nine designated neighborhoods approved by the Des Moines City Council and the Polk County Board of Supervisors.

As part of the Phase Ten offering, NFC is expanding its lending area to include the low- to moderate-income census tracts as identified by HUD according to the 2000 Census. Minor adjustments to the lending area boundaries are also being made to facilitate marketing and administration of the programs, so the lending area is very similar but not identical to the HUD low to moderate-income map.

The NFC Board of Directors has also chosen to exclude Census Tract 51, that consists of the east and west side downtowns, from its lending area. The decision to not offer the purchase/rehab and home improvement loan products in the downtown was made because of the small number of detached single-family homes that remain in Census Tract 51. Within that census tract, there are currently only fourteen single-family structures. Only five of these structures are owner-occupied according to City Assessor information. If any of the property owners within Census Tract 51 do want to participate in the NFC lending program, they may request an exception from the NFC Board of Directors.