



Date: October 18, 2010

To: Members of the Community Development Commission

From: Lisa Tapper

Re: Proposed Changes to AHC's Homebuyer Programs

Because of the tremendous changes wrought by the mortgage meltdown and foreclosure crisis, AHC would like to remodel its homebuyer programs to better meet the consumer and community needs of today. This includes changes to the financing structure as well as increased education and counseling requirements.

Proposed Changes to Affordable Plus Mortgage (APM) Financing Structure

The APM currently has a layered financing structure in which the amount of purchase assistance varies depending on the property purchase price, as detailed in the below chart.

Purchase Price	\$150,000+	\$100,000 to \$149,000	\$75,000 to \$99,000	<\$75,000
Total Purchase Assistance	\$50,000	\$35,000	\$19,000	\$7,500
AHC's Lender Consortium	\$35,000	\$25,000	\$15,000	\$3,500
IHDA Trust Fund	\$14,000	\$9,000	\$3,000	\$3,000
Lake County HOME/CDBG	\$1,000	\$1,000	\$1,000	\$1,000

The purchase assistance is provided by a combination of three sources. (a) A lender consortium comprised of private financial institutions, created and serviced by AHC, provides up to \$35,000 per loan in the form of a 30-year fixed rate loan at 4% interest. (b) The Illinois Housing Development Authority (IHDA) Trust Fund provides up to \$14,000 per loan, in the form of an interest-free deferred loan due upon sale, transfer of title, or cash out refinance. \$3,000 of this is a forgivable grant. (c) Lake County finances \$1,000 per loan, also in the form of an interest-free deferred loan due upon sale, transfer of title, or cash out refinance.

The proposed financing structure would provide 10% of the property purchase price, with a maximum assistance of \$15,000. In nearly all cases, Lake County would provide \$1,000 toward the assistance, and the remainder would be funded by the IHDA Trust Fund. As with the current APM, \$3,000 of this will be a forgivable grant. In the unusual event that a home is priced at \$70,000 or less, Lake County may provide a loan of up to \$2,000. The investor financing would be eliminated.

These changes will be beneficial because:

- The major barrier to obtaining a loan in today's market is lack of funds for a down payment and cash to close. Due to a combination of restrictions imposed by lenders, investors and mortgage insurance companies, the typical buyer needs 10% down plus additional funds for closing costs in order to obtain loan approval. This would require AHC's average buyer to bring about \$15,000 to the table: a significant challenge for low-income households.
- Interest rates on fixed-rate loans are currently so low that there is not enough differential between the first and AHC investor-financed 4% mortgages to warrant the complexity of the loan. Further, this layered financing structure is now inordinately difficult to sell on the secondary market in today's climate. Without a guarantee from Fannie Mae and Freddie Mac to purchase the first mortgages, many lenders simply won't participate in the program.

Changes to the Waukegan First-Time Homebuyer Program Financing Structure

The Waukegan First-Time Homebuyer Program currently provides buyers with up to \$10,000 in assistance as a 0%-interest deferred loan. This might include \$5,000 in assistance toward down payment or closing costs, or \$10,000 in conjunction with the current APM model. Buyers can purchase any qualified property located within City limits. The proposed program would provide a maximum of \$10,000 in assistance as a 0%-interest deferred forgivable loan to homebuyers purchasing a foreclosure. "Foreclosure" would follow the same definition as currently used in the Neighborhood Stabilization Program. The assistance would be forgiven 20% annually upon the anniversary of the closing, and fully forgiven after 5 years. The reason for this proposed change is to incentivize the purchase of foreclosures in a town that has more than 1,000 vacancies, thereby promoting neighborhood stabilization simultaneously with homeownership opportunities.

Changes to the North Chicago First-Time Homebuyer Program

The North Chicago First-Time Homebuyer currently provides \$8,000 in assistance as a 0%-interest deferred loan. To both the City's and AHC's dismay, demand for this program has been sporadic. North Chicago's homeownership rate of 36% is significantly lower than Lake County's (80%) or the State of Illinois (67%). Further, the City has one of the highest foreclosure rates in both the County and State. To help spur demand for the program and further homeownership and neighborhood stabilization goals, we request allowing the assistance to be full forgiven after 5 years in the home.

Increased Education and Counseling Requirements

AHC also intends to expand its education and counseling offerings to better meet the needs of our customers. Specifically, we want to address the overwhelming need for credit repair and debt reduction (a particular trend in the last 18 months), as well as to better prepare buyers for life as a homeowner. Expanded services would include classes and counseling related to budgeting and credit, home inspection and maintenance, and post-purchase maintenance and financial stability.

Thank you for your consideration of this request. AHC can have the greatest impact by remaining flexible to the changing needs of consumers and communities, but we can only do this with the support of our funders. We hope to be able to implement these changes with our existing contracts that still have funding available. Please contact me at 847/263-7478 if I can provide you with any further information.