



Date: August 10, 2011

To: Members of the Community Development Commission

From: Lisa Pugliese

Re: Proposed Changes to the Lake County Downpayment Assistance Program

In November 2010, AHC launched the Lake County Downpayment Assistance Program (DAP) to better meet the needs of today's homebuyers. The DAP provides 10% of the property purchase price, with a maximum assistance of \$15,000. Lake County provides \$1,000 toward the assistance, and the remainder is funded by the IHDA Trust Fund. In addition to assisting with upfront costs, DAP has the benefit of lowering private mortgage insurance costs, thereby making the monthly payment more affordable. AHC's homebuyer program activity has skyrocketed, with 41 closings since the program launch through August 5. The average purchase price is \$107,251.

After more than 18 months of relatively slow homebuyer activity, we attribute the explosion in program activity to the fact that the DAP is an excellent product for today's buyer in which the primary financial barrier to homeownership is the upfront out-of-pocket costs. Since the upheaval in the lending industry, the vast majority of buyers today use an FHA product. This requires buyers to put down 3.5% of the purchase price as a down payment, in addition to closing costs which tend to be about \$3,000. This creates an unmanageable burden for low income households. Programs such as DAP are critical for today's market. More than half of all buyers are first-time homebuyers; the "move up" or "transition" buyer has been largely pushed out of the market due to the difficulty in selling a home in a market flooded with properties, combined with shrinking or negative equity. Never before has it been clearer that mortgage assistance programs benefit not only the individual household served, but help entire neighborhoods and communities in a web of complex and interrelated ways. More, today's lower priced homes offer an opportunity to lower income households previously thought unattainable; helping these buyers capitalize on today's market is a service that will benefit these families for years to come.

Despite DAP's success, AHC is requesting a change because the IHDA Trust Fund, the primary funder of DAP, has announced that it does not have enough money to accept new funding applications. Our current IHDA funding award is nearly depleted; we only have enough funding to assist 11 more households under the current DAP financing structure. The Trust Fund is funded through a real estate transfer tax. The reduction in housing sales and refinances has reduced the funding pot in general. Additional uncertainty is created by the overall State of Illinois budget crisis. IHDA is currently unwilling to provide a time frame in which new funding applications will be accepted. Once applications can be submitted, it is typically a minimum of 3 months (and usually closer to 6) before an approved application actually has access to funds.

As of the date of this memo, \$128,000 is currently available for the DAP through current Lake County contracts. An additional \$86,000 is available through IHDA.

To make the best use of funding resources and simultaneously meet the most pressing community need, AHC proposes utilizing all available funds to revise its program model so that all households receive \$5,000 in assistance. Assistance would be in the form of an interest-free deferred loan due upon sale, transfer of title or cash out refinance; the IHDA portion of the funds will be forgivable in some cases. Most households would receive two loans: \$3,000 from IHDA and \$1,500 from Lake County. Once IHDA funding is depleted, Lake County funds would supply the entire loan. Based on current funding availability, this would allow us to serve 32 households.

As with all AHC homebuyer programs, participating households will receive comprehensive pre-purchase education and counseling, along with foreclosure intervention throughout the life of the loan. AHC's project delivery fee would continue to be a \$2,000 HOME-funded fee that covers education, counseling and loan administration services.

Finally, we ask that an amended contract offers the flexibility to use the existing structure should IHDA funds once again become available.

Thank you for your consideration of this request. Today's extraordinary and unpredictable market has required AHC to be unfailingly responsive and proactive. We cannot do this without the support of our funders. Please feel free to contact me at 847/263-7478 if I can provide you with any additional information.