

**Fairfax County Department of Housing and Community Development
STAFF REPORT**

*Fairfax County's Response to the Foreclosure Crisis and Implementation of the Federal
Neighborhood Stabilization Program*

October 27, 2008

Overview: *Fairfax County has taken significant, affirmative steps to address the foreclosure crisis in the homeownership market which can now be enhanced with federal funds allocated through the Housing and Economic Recovery Act of 2008 (HERA). Fairfax County stands to receive a direct allocation of \$2.8 million through the Neighborhood Stabilization Program component of HERA. In addition, HCD will pursue additional funding from the state's allocation.*

This document provides an update on the status of the foreclosure crisis in Fairfax County, a review of the steps taken by the Board of Supervisors to address this crisis, and the proposed plan for the use of the federal Neighborhood Stabilization Program resources in the context of Fairfax County's foreclosure strategy.

I. Update on the Foreclosure Crisis in Fairfax County

In the first two quarters of calendar year 2008, there were 7,399 foreclosures in Fairfax County, compared with 539 total foreclosures in 2006 and 4,527 in 2007. Through the end of August 2008, there were 2,117 properties still in foreclosure (generally meaning they are bank-owned). On average through August, properties that have been re-sold were generally in active foreclosure status for about four months. Foreclosures appear to be clustered in specific areas of Fairfax County, including Springfield, Annandale, Herndon, Centreville and the Richmond Highway Corridor.

Net Foreclosures in Fairfax County, by Magisterial District – August 2008					
District	April	May	June	July	Aug
Braddock	225	201	238	227	235
Dranesville	304	275	269	227	223
Hunter Mill	124	115	120	119	134
Lee	271	253	405*	406	323
Mason	203	192	221	231	265
Mt. Vernon	294	254	275	281	313
Providence	126	120	154	153	176
Springfield	122	120	116	126	149
Sully	238	250	288	269	299
Total	1,907	1,780	2,086	2,039	2,117

* Increase reflects coding update of a prior sale of 126 condos. Not a recent foreclosure, but staff just recently updated the foreclosure indicator in our database. This was a multi-parcel foreclosure of condos.

(Source: Fairfax County Department of Tax Administration)

Based on an analysis of a recent data snapshot from the Metropolitan Regional Information System (MRIS), the following chart shows the current average sales prices of the homes in foreclosure countywide:

List Price and Assessed Values of Foreclosed Residential Properties By Unit Type – October 2008				
Unit Type	Average Assessed Value	Average List Price	Median Assessed Value	Median List Price
Single Family	\$572,859	\$431,311	\$482,330	\$367,825
Townhouse	\$364,129	\$279,025	\$356,190	\$272,500
Condominium	\$247,004	\$174,096	\$243,160	\$148,580

(Source: MRIS)

II. The Fairfax County Foreclosure Initiative

On June 30, 2008, the Fairfax County Board of Supervisors approved a foreclosure program designed to address the current foreclosure problem and help stabilize impacted neighborhoods while increasing the opportunities for additional affordable workforce housing. These approaches, which include assistance to homeowners in distress, neighborhood preservation efforts, and the “Silver Lining Initiative”, are described below.

- **Homeowners in Distress:** Foreclosure specialists from HCD and other county agencies and nonprofits are coordinating efforts with VHDA to counsel households at risk of foreclosure in Fairfax County. *Status:* As of October 22, 2008, a total of 424 people had received foreclosure counseling.
- **Neighborhood Preservation Efforts:** To assist in maintaining home values in communities with foreclosed properties, the county plans two main approaches:
 - **Direct Strategic Purchase:** FCRHA may purchase up to 10 foreclosed single-family houses or townhouses identified as abandoned, deteriorated or a destabilizing force on the neighborhood, per criteria adopted by the Board of Supervisors on August 4, 2008. Properties will be rehabilitated and resold to first-time homebuyers or a nonprofit organization. *Status:* None to date.
 - **Neighborhood Appearance and Safety:** By using the existing Home Improvement Loan Program (HILP) for low-cost loans to current homeowners, the county will assist homeowners in maintaining and preserving the appearance and safety of their neighborhoods. *Status:* None to date.
- **Silver Lining Initiative:** Through the federally funded Home Equity Loan Program (HELP) shared equity loan, HCD is assisting first-time homebuyers to purchase a foreclosed home. The purchase price of the foreclosed home can not exceed \$385,000, and homes are limited to townhouses and single-family homes. Low-cost

first mortgages through the VHDA’s SPARC program will be used for qualifying households. *Status:* Six bank-owned, foreclosed properties purchased to date.

III. Proposed Steps to Incorporate Federal Neighborhood Stabilization Program Funds: The “Silver Lining Plus” Program

The Silver Lining Initiative is the primary means by which staff proposes to implement the federal Neighborhood Stabilization Program funds; this program will be known as “**Silver Lining Plus**”. The following are the policy changes proposed to implement Silver Lining Plus:

Allocation of Funding: Staff proposes that the \$2.8 million federal Neighborhood Stabilization Program grant be allocated as follows:

- *First-time Homebuyers:* 54 percent, or \$1.5 million for equity-shared second trusts for first-time homebuyers purchasing foreclosed homes in Fairfax County. Purchases limited to townhouses and single-family homes.
- *Non-profit Organizations:* 36 percent, or \$1 million to provide no-interest, deferred loans to purchase foreclosed properties. Non-profit organizations may purchase any housing type, including condominiums, for use as rental properties.
- *Administration:* 10 percent, or \$280,000.

Incomes to be served: Consistent with the existing Silver Lining Initiative, purchasers will have incomes that do not exceed 100 percent of the Area Median Income (AMI), currently \$99,000 for a family of four. Non-profit organizations which purchase and rent units using Silver Lining Plus funds will be asked to target persons earning 50 percent of AMI and below; this satisfies the federal requirement that at least 25 percent of the Neighborhood Stabilization Program funds must serve persons earning very low-incomes.

Purchase price limits and maximum shared equity loan: The following chart depicts the proposed purchase price limits and maximum allowable shared equity loan under Silver Lining Plus. The purchase price and loan limits better reflect current market conditions.

Unit Type	Purchase Price Limit	Silver Lining Plus: Proposed FCRHA Maximum Loan*	Maximum Loan Comparison to Existing Silver Lining Initiative
Condominium (non-profits only)	\$174,000	\$90,000**	Not applicable
Townhouse	\$270,000	\$66,350	\$91,676***
Single Family	\$362,790	\$91,676	\$91,676

* Includes down-payment and closing cost assistance.

** Must serve households earning 50 percent of AMI and below.

*** The Board will be requested to adjust the loan limits downward, consistent with Silver Lining Plus.

Geographic Areas: The Silver Lining Plus program must follow federal requirements and therefore financing will generally be limited to foreclosed homes in geographic areas with the greatest concentration of foreclosed homes, except for a few strategic purchases that may occur. The areas are identified by zip code (see maps attached) and include specific areas such as: Annandale, Springfield, Herndon, Centreville and the Richmond Highway Corridor. Support from the District Supervisor will be required for any non-profit purchasing and renting more than one home in a single neighborhood or subdivision.

Financing Terms: The following chart shows the proposed financing terms for the Silver Lining Plus program and recommended conforming amendments to the existing Silver Lining program:

Proposed Term	Silver Lining	Silver Lining Plus
30-Year Affordability Period. Loan is forgiven after 30 years.	✓	✓
At the time of sale or transfer, the greater of the principle and interest or the FCRHA's equity share is due and payable.	✓ Currently, the FCRHA reserves the right of first purchase; however, in addition, HCD recommends the adoption of this policy for Silver Lining as well.	✓
At Year 15, the household is subject to an income recertification which will include a look-back for the past three years. If the household is found to be over 120 percent of AMI, deferred simple interest will begin to accrue. At the time of sale or transfer, the accrued interest from Year 15 <u>plus</u> the greater of the principle balance or FCRHA's equity share will be payable to DHCD. For households which still have eligible incomes, the terms will not change.	✓ Recommend adoption for Silver Lining as well.	✓

Rehabilitation: For properties which require rehabilitation, Silver Lining Plus funds may be used for minor improvements and HILP funds may be redirected to assist properties needing a greater scope of rehabilitation.