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MEMORANDUM

TO: Cambridge Affordable Housing Trust

FROM: Christopher Cotter, Housing Director
Anna Dolmatch, Housing Planner

DATE: September 27, 2018

RE: Homeownership Program Update

We would like to provide the Affordable Housing Trust with an update regarding the status of the First Time Homebuyer program, including a discussion of policy areas for evaluation and possible modification. The last update was presented to the Trust in May 2017.

Status and New Unit Production

There are more than 500 homeownership units subject to affordability restrictions held by the City. These consist of approximately 20% units purchased on the open market with financial assistance from the City, and the remaining units almost evenly divided between non-profit developed units and units created through inclusionary housing requirements or other zoning-based programs. The homeownership stock is approximately 50% 2-bedroom units; 30 % 1-bedroom, and 20% 3-bedroom.

In the past year, four units have been added to the homeownership stock added through the newly renamed and relaunched HomeBridge program. In addition, seven new Inclusionary units were made available through lotteries.

There are an additional nine homeownership units in the Inclusionary pipeline. While this is more activity than we have seen in many years, Inclusionary production continues to be almost exclusively rental. No homeownership project has yet been permitted under the new Inclusionary ordinance. While we are now seeing some homeownership developments, inclusionary housing production is not expected to be a large source of homeownership units in the next two years.

We continue to evaluate sites for potential development as 100 percent affordable homeownership. These types of projects may be the best option for smaller parcels where tax-credit rental is infeasible; however, without options for additional public subsidy sources, these projects will require a large per-

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unit subsidy contribution from the Trust and/or City. These types of projects may work best with a mix of incomes, including middle-income units. We will continue to evaluate these projects and discuss with the Trust as opportunities present.

Homeownership Resale Fund

Despite limited creation of new affordable units, we have continued to serve new buyers. In the past five years, 78 homebuyers have purchased homes through City programs. The largest source of new buyer opportunities is the Homeownership Resale Pool, where we accept applications on a rolling basis and match waiting buyers to units when current owners sell. The Resale program has allowed us to serve dozens of new buyers, and the revolving loan funds committed by the Trust for this purpose have ensured that needed reinvestment and rehab can be completed upon turnover. These funds have also allowed us to update and improve affordability restrictions on older units prior to sale to new buyers.

Since 2006, the Trust has made three commitments totaling $3.5MM to the Homeownership Resale Fund. The purpose of this fund has been to:

- Support the long-term sustainability of the homeownership stock by enabling the City to exercise its purchase right when units are being sold;
- Fund needed rehab on these units;
- Facilitate sales to new buyers selected by CDD; and, when needed;
- Subsidize resale prices to ensure that units remain affordable to the targeted income level.

In addition to the intended goals, this system has allowed for more predictability for owners who can plan for their sale, a critical consideration for those who are purchasing another home in competitive local markets.

The intent was for the Resale Fund to revolve and sink through expenditure for acquisition and rehab and full or partial repayment at the time of sale to a new buyer. The projection was that the $3.5MM would cover costs at an average of 12 units per year for roughly 20 years.

At this time, the Resale Fund has been used for 107 units. Approximately $1.3MM has been permanently expended, leaving a balance of $2,200,000. This is a decrease of $200,000 since the last report to the Trust. However, the

Resale Fund continues to decrease at a slower rate than our original projection. This is slightly less than a 30% reduction in the permanent fund balance in eleven years. This is partially due to low unit turnover in the first few years, which has increased in recent years, and also to low interest rates. Low mortgage rates have enabled units to be sold for higher prices without any change in affordability. In some cases, we have been able to recapture funds used for rehab and holding costs. The Fund remains in a strong position to allow the City to fund the level of stewardship that will maintain the ownership stock in excellent condition, and allow upgrades to older units upon resale.

We have seen , however, times when a large number of units are owned on behalf of the City, undergoing rehab and being prepared for sale, which can create a cash flow issue for the fund. If no funds are available, we must delay repurchase of new units until other units are sold and funds become available. This can impede a family's ability to purchase a new home. While additional funds are not needed for permanent investment in units at this time, an increase to the fund would ensure that cash flow does not prevent the City from being able to purchase units when families need to sell.

When owners sell units, they most frequently purchase a different home in Massachusetts usually outside of Cambridge. Less than 10% of sellers in the past five years have stayed in the city. During this time, 17% purchased in Arlington/Somerville/Medford, almost 25% moved to other states, and 10% moved out of the country. While this is most often due to job opportunities or family reasons, in two cases families relocated to Southern Maine because that was the closest area where they could find a single-family home that met their needs. A plurality of sellers moved to communities further from Cambridge.

The largest threat to the long-term sustainability of the Resale Fund is a significant change in interest rates. The median interest rate for buyers over the past five years was 3.75 percent; we are currently seeing rates around 4.375 percent. Increased interest rates mean that affordable units will need to have a lower purchase price to maintain the same monthly costs. For example, an increase from 3.75 and 4.375 percent requires an additional $2,000 in annual income. While this is not a large difference, interest rates are expected to continue to rise. This will have an increasing impact on the need for additional investment to keep the units affordable at the same income level.

Resale units will require larger and more frequent infusions of subsidy to maintain affordability. In addition, there remain a large number of older units which we expect will have extensive capital needs when they come into the resale program when the owners sell. While the fund was budgeted to include a certain number of large-scale rehab projects, if these exceed projections the fund may sink more quickly.

We will bring a request for additional Resale funds to a future meeting.

Homeownership Demand

Since CDD created of the Homeownership Resale Pool in 2009, demand has outpaced supply. The longest wait time has been for 3-bedroom households due to the limited stock. Many households find other options during the long wait time. We are seeing a decline in applications from 3-bedroom households, and we believe this may be partially due to a general knowledge that there are few opportunities to purchase. The demand for 1-bedroom units continues to be very strong, with more than 100 Cambridge residents in this pool.

As of April 2018, there were 480 households in the Homeownership Resale Pool. Of these, 29% are in the 1-bedroom pool, 40% in the 2-bedroom, and the remaining 31 % are waiting for a 3-bedroom or larger. The 1-bedroom pool has increased from 26% in 2017, with small decreases in the share of applicants in the 2- and 3-bedroom pools.

The 1-bedroom pool is comprised of 65% Cambridge residents, with an additional 12% that work in Cambridge. For the 2-bedroom pool, 57% of applicants are Cambridge residents with minor children, while 20% are all-adult resident households. The remaining 23% are non-resident, including applicants who work in Cambridge.

The 3-bedroom pool has the highest percentage of Cambridge residents at 89%. We believe this is due to tight supply of units, which has resulted in no non-resident household ever being offered a 3-bedroom unit through the Resale Pool. 78% of this pool is resident households with minor children.

The increasing unmet demand for 1-bedroom units could be impacted further by the change in the Inclusionary ordinance to create more family-sized units. Inclusionary development has been the largest source of 1-bedroom units to date.

In the 2- and 3-bedroom pools, the number of Cambridge-resident applicants with children under 18 is more than double the number of applicants with children under 6. Many of these applicants have "aged out" of the highest preference group while waiting for a unit.

We have used this information on the Resale Pool to inform the discussions about recommending changes to the buyer selection preference policies.

Owner Support

We continue to foster relationships with current owners and condo associations that contain all affordable units. We do this directly and in partnership with Just A Start. JAS frequently serves as the City's designee for units being repurchased, and participates in condo associations during the re-sale holding period. This has provided opportunities to work with associations to address issues. JAS's mediation and housing services program has also been incredibly helpful in addressing specific issues among owners and providing training and support to associations when asked by CDD. Both JAS and HRI also assist affordable owners with needed capital repairs and home improvements through their HIP programs. HIP is a very important resource for owners who may not have the financial means to make capital repairs.

One emerging issue is that the HIP program uses federal funding, which has an income limit of 80% of AMI for much of Cambridge. As you may know, this "HUD 80%" income limit is capped based on national income levels, and is lower than "City 80%", which is calculated as 80% of 100% of AMI. This leaves some owners without access to HIP loans, creating an issue for buyers who don't have the resources to pay for large expenses and are not eligible for assistance.

In the past, we have often been able to assist owners above the HUD income limit using CDBG funds in designated NRS areas, where households may qualify with income up to 120% of AMI. However, as Cambridge demographics shift, the NRS areas are shrinking. Some owners who would have qualified for HIP in the past no longer have that option, and we expect the NRS areas to continue to contract.

For example, an owner purchased a scattered-site unit on Cameron Ave in 2012. The building, an older triple-decker, needed structural work. The unit was in the NRS when she purchased but was excluded in the 2015 update. The owner could not afford the $17,000 needed for the rehab and did not have access to enough equity after owning for three years. In this case we were able to close the HIP loan prior to the new NRS taking effect.

We would like to discuss a Home Improvement fund for owners of affordable homeownership units who do not qualify for the HIP program. An initial capitalization of $300,000 would allow us to fund an estimated 15 cases. If demand is less than anticipated, the funds could be returned to the Trust. Loans could be made using the existing HIP infrastructure and on the same terms. The program could assist households earning between HUD 80% and 120% AMI. We believe that there is a need for this type of program to provide long-term support to moderate-income owners. A program like this would need to be funded with Incentive Zoning contributions. If there is interest in this, we will revisit the idea when we receive the next Incentive Zoning contribution.

Financial Assistance and HomeBridge

In 2017, the Financial Assistance Program was rebranded as HomeBridge. HomeBridge provides funding for eligible households to purchase units on the open market. The program can be an excellent option for households who are unlikely to have the opportunity to purchase through other homebuyer programs because they do not have children under 6, or who work but do not live in Cambridge. In addition, at the time the program was relaunched, we were able to offer a limited program for households earning up to 120% AMI. This pilot was funded by the City with a portion of community benefits contributions. The City Council appropriated $1,039,340 for this 100-120% AMI program component.

To date, two buyers have purchased using the high-middle program. The funds were used to purchase one 2-bedroom and one 3-bedroom unit. We have $336,140 of these funds remaining which will assist in the purchase of one 1- or 2-bedroom unit. There are currently three applicants waiting for funding for a 3-bedroom. Interest in the program has been high, and if additional funds were available, we believe that HomeBridge would be able to create additional units for households earning between 100% and 120% AMI.

The remarketed program has also increased interest among applicants at or below 100% AMI. Two 3-bedroom units have recently closed, with a 3-bedroom and a 2-bedroom unit closing in the next few weeks. We are bringing a separate a request for additional funds at this time.

One policy change we would like to make to HomeBridge is to add a minimum income. The program's intent is to serve higher-income households who have fewer options in other City homebuyer programs. We feel that the limited HomeBridge funds are best targeted to households who are most likely to be able to purchase in the market. A minimum income of 60% of AMI would not impact the ability of the program to assist buyers who can find units to purchase in the market, but would limit confusion for residents who interpret the lack of a minimum income to imply that the program can assist lower income households..

As prices and interest rates continue to rise, the HomeBridge price limits are likely to rise. There is a concern that the median purchase price of a condominium will become too high for households within the HomeBridge income range. One way to mitigate this increase is to allow for a higher housing ratio. The current program limits the applicants housing payment to between 25% and 33% of gross monthly income. However, the One Mortgage program, administered by Mass Housing Partnership (MHP), and used by many first-time homebuyers, allows a housing payment ratio of up to 36% for applicants who meet certain criteria, called "Tier 2" loans.

To qualify, applicants must:

- Have a credit score that exceeds the MHP OneMortgage program minimum, currently 660;
- Demonstrate two months liquid reserves after downpayment and closing costs; and
- Document that estimated ownership payment will be no more than 20% above current housing payment.

We propose increasing the allowable housing payment ratio for HomeBridge for applicants who meet the MHP Tier 2 definition.

Homeownership Advisory Council

One of our goals for the homeownership program going forward is to create a way for stakeholders to have more involvement in the program. One of the models we are considering is creating a Homeownership Advisory Council that would have the opportunity to review and provide input on program policies that impact owners, buyers and applicants. We envision that an Advisory Council could have members with different perspectives on the homeownership program, and would want to include current homeowners, residents waiting for ownership units, Trust members, and City staff.

We also think members of an Advisory Council might assist us in administering the program. We are beginning to see more cases of owners who require some assistance or intervention which require staff to make judgements on how best to address these situations. For example, staff on cases where owners can no longer live in their unit due to physical limitations. We have had a small number of requests from owners who would like to purchase a different unit due to physical needs. It might be helpful to have an objective body of stakeholders to help us consider these cases and make recommendations to staff. We expect the number of these cases to increase. Of current owners with age on file, 25% are over 60, and more than 50% are over 50. Some units are suited to aging in place, particularly flats in elevator buildings. In addition, the HIP program can be used to add accessible features. However, there are units where modifications cannot be made.

Other Program Considerations

Equity Return and Resale Formula:

As previously discussed with the Trust, we believe that the equity return and resale formula should be reviewed. The current return is very low and may be a factor in preventing households from moving to market-rate housing. Staff will analyze how the current formula is performing, assess other options and their advantages and disadvantages and discuss with the Trust at an upcoming meeting.

Second-time buyer options:

We continue to look at options to assist households in affordable units who want to move to market housing in Cambridge but are unable to bridge the gap from a restricted unit. One model we are exploring would provide revolving down payment assistance for market units based on a shared-equity system. However, there are significant challenges to finding appropriate funding for these types of activities. We will continue to discuss ideas for how to assist owners who are ready to move to market housing in Cambridge but are not able to do so in this market without some form of assistance.

While we continue to assess how we can better assist owners transitioning to market ownership, we have notified owners that HomeBridge is currently open to owners of City-assisted affordable units who require a different unit size based on changes in household composition. No current owner has used the HomeBridge program.

We appreciate the Trust's consideration of this status update on the homeownership program and look forward to discussing this with you.