

PUBLIC MEETING AGENDA



Housing Trust Fund Advisory Board

Monday, August 9, 2010
6:00 PM
Hatton Hall
34 E. 7th Street
Tempe, AZ 85281

AGENDA

Call to Order

1. **Public Comment** - According to the Arizona Open Meeting Law, the Committee may only discuss matters listed on the agenda. Matters brought up by the public under public appearances that are not agendized cannot be discussed by the Committee. A 3-minute limit per person will be in effect.
2. Acceptance of May 10, 2010 Meeting Minutes (Todd Marshall, Board Chair)
3. Continuing Discussion Regarding Possible Financing Options for Affordable Housing Activities-See *Attachment A* (Group Discussion)
4. Future Agenda Items
5. Future Meeting Frequency, Dates and Location
6. Adjournment

The City of Tempe endeavors to make all public meetings accessible to persons with disabilities. With 72 hours advance notice, special assistance can also be provided for sight and/or hearing impaired persons at public meetings. Please call 350-2905 (voice) or 350-8400 (TDD) to request an accommodation to participate in this meeting.

Attachment A

(Courtesy of Neil Calfee)

1. **Project Based Direct Investment** – A project’s owner or developer receives a contribution of funding or land to reduce the cost/basis in the development. In doing so, the project’s developer then passes through that contribution in the form of reduced rent or sales price to allow the targeted income group to afford the housing unit. This is applicable to any form of new construction or acquisition.
 - In a rental project, this would take the form of offering a predetermined number of units at a below-market rental rate commiserate with the allowed payment standards for the targeted income group. Generally, the owner of such apartments would be contractually-obligated for a period of years (typically 20) to continue to offer these units at the predetermined affordability level (adjusted over time). The project would be audited annually to ensure compliance with income standards for occupants of the affordable units.

Example: A community wants to create affordable rental units for those earning at or below 80% of Area Median Income (AMI), so it offers a parcel of land it owns to either private or non-profit developers to build and operate a new apartment complex. To make the new apartments affordable, the city sells the land for \$1 in exchange for the selected developer agreeing to keep the apartments at a rental rate no greater than the payment standards for those earning 80% of AMI for a period of 20 years (as payment standards change over time, so may the rents). The apartment complex operator will income verify occupants to ensure that they are making at or below 80% AMI and further agree to annual audits to ensure compliance.

Pros: Larger amount of units created, long-term affordability period

Cons: Greater amount of investment needed, administrative commitment to compliance, no subsidy recapture

- In a for-sale situation, the home/unit would be offered for a below-market price where the mortgage would be considered affordable for the targeted income group. Determining what, if any, equity sharing may occur between the buyer and the subsidizing entity is generally an issue as well as determining whether (and if so, how) the unit may remain affordable upon resale.

Example: A non-profit would acquire, or build, a single-family home at a market price, then offer that home to an income-qualified buyer at a price that would allow a mortgage payment that met the payment standards for 80% of AMI – subsidizing the difference between the market price and maximum price that would make the home affordable to that individual. That buyer would typically have a down payment of \$10,000 and be prequalified through a traditional mortgage lender. When the transaction closed, the recorded documents would show a market priced transaction, with the non-profit’s subsidy secured through a second deed of trust, subordinate to the first deed of trust on the mortgage debt, on the property. If, in five years, the buyer sells the home for more than the market value of her original purchase of the property (current market conditions

notwithstanding), the sale proceeds would pay off the original mortgage debt, the non-profit's subsidy, and any remaining equity would accrue to the seller. The non-profit would get its original subsidy repaid, but would not have made any interest on that money or shared in any equity gains on the home.

Pros: Lower investment amounts needed, guaranteed recapture of subsidy

Cons: no growth in subsidy over time, housing unit reverts to market rate after sale

- 2. Home Buyer Assistance** – an income-qualified homebuyer is provided with what is essentially a no-interest loan or, in some cases, an outright grant to reduce the effective purchase price of a market-rate home which results in the mortgage payment of that home falling within the applicable payment guidelines. The home's sale is reported at fair market value, thus the "affordable housing" transaction does not affect the value of surrounding properties. The homebuyer subsidy is generally secured by a deed of trust on the property which may be forgiven over time or repaid upon sale or refinance of the home (refinance payment is triggered if the homeowner extracts equity through the refinancing process).

Example: A city or non-profit first-time homebuyer program would provide down payment assistance to income qualified individuals. Such individuals would have a cash down payment and be pre qualified through a conventional mortgage lender, the down payment program would contribute the funding needed to make the resulting mortgage affordable for that individual (such contributions are generally capped, contributions in the Phoenix Metro area would typically range from \$20,000 to \$30,000 per house for someone making 80% of AMI). With this financing and down payment in place, the buyer would enter the market and seek a home with a market price that, after applying their own down payment and the contribution from the program, would result in a mortgage that met the payment standards for their income range. The home (which could also be a townhome or condo) could be located anywhere within the community, the only caveat being that the home purchased must pass a housing quality inspection.

Pros: Relatively simple to administer, supports dispersion policies, guaranteed subsidy recapture

Cons: Rapidly increasing market values reduce housing choices, no growth in subsidy

- 3. Financing "Back-Stop"** – A project funding pool is created through a private-sector lender that offers below-market construction financing to project developers/non-profits, with the attendant financing savings used to subsidize the creation of affordable housing units (which may be all or a portion of a given project). The funding pool could offer below-market terms because an outside agency would provide a funding commitment that would act as additional security for the lender who, because of the reduced financial risk, would charge less to finance the given affordable housing projects. The funding commitment would only be drawn upon in the event of a loan default by one of the projects.

Pros: Greater opportunity to leverage funding, easy to administer

Cons: Funds may be encumbered for many years, success dependent on pipeline of projects