

September 10, 2004

To: Council Committee for the Development of Lots 2 and 5

From: John Stainback

Re: **Alternative Public/Private Financing Instruments for Affordable Housing**

The proposed commercial development of Lots 2 and 5 and the expansion of the Wallace Deck include 305 housing units. The twenty percent (20%) allocation requirement equals 61 units of affordable housing. The purpose of this memo is to identify alternative public/private financing instruments and programs to facilitate the financing of the 61 units of affordable housing.

Some of these affordable housing programs apply only to end-users and not developers. We believe these programs could be incorporated into a public/private partnership between the Town and the to-be-selected developer(s).

Orange County, NC

- Orange Community Housing & Land Trust (OCHLT)

OCHLT is a nonprofit community based membership organization funded by Orange County and the towns of Chapel Hill, Carrboro and Hillsborough. OCHLT are developers of affordable housing, predominantly serving people at or below 80% of the Area Median Income (AMI). OCHLT's mission is to provide affordable housing for both rental and homeownership.

OCHLT acquires land trust properties by use of a variety of funding sources. Some of these properties have pre-existing homes on them; some require development. OCHLT markets and sells the ownership interest in the homes, while retaining title to the property. OCHLT then leases the land and improvements, for a minimal fee, to the homeowner via a 99-year renewable ground lease.

SPPRE recommends that the Town and/or SPPRE explore structuring a Public-Public Partnership between the Town and OCHLT whereby OCHLT purchases a small portion of the land under Lots 2 and 5 and the Wallace Deck.

State of North Carolina

- Individual Development Account Demonstration Program

In 1998, the North Carolina Small Cities Community Block Grant (CDBG) Program

invested in the development of prototype programs at four rural sites. These programs are designed to foster homeownership through the creation of individual development accounts (IDAs) and the provision of ancillary homeownership support services.

The North Carolina Small Cities CDBG Program has invested \$240,000 in the four sites. CDBG funds are used in conjunction with other contribution: for every \$1 of CDBG matched savings, the saver must deposit \$1 and local sources must contribute \$1.

- Self-Help Durham, North Carolina

According to the Self-Help website, Self-Help's mission is to create home ownership and economic opportunities for minorities, women, rural residents and low-wealth families. Since 1980, they have provided over \$3.5 billion in financing to 40,000 small businesses, nonprofits and homebuyers.

Self-Help provides low cost, low interest rate home loans for borrowers who cannot qualify for conventional financing. Self-Help's Nonconforming Lending program includes:

- As little as 3% down payment
- Down payment assistance often available
- Common sense underwriting
- No discount points; maximum 1% origination fees
- Low closing costs

Self-Help offers both Fannie Mae and USDA loans for those customers who qualify. USDA loans offer 100% financing with a minimum customer investment of \$500.

- Community Advantage Home Loan Secondary Market Program

The Community Advantage Home Loan Secondary Market program, created in 1998, is an expansion of Self-Help's current Home Loan Secondary Market Program. By providing participating lenders with a guaranteed market for low-income loans, Community Advantage increases lender's incentive and ability to make Community Reinvestment Act (CRA) loans.

Community Advantage is a partnership among Self-Help, a North Carolina-based community development organization, Fannie Mae and the Ford Foundation. Initial lenders participating in the program include Bank of America, Bank One, Branch Banking & trust, Centura Bank, Chase Manhattan Bank, First Citizens Bank & Trust, First Union National Bank, Norwest, the North Carolina State Employees' Credit union and Wachovia.

Because CRA loans require lower downpayments and have more flexible underwriting standards, they rarely meet the mortgage-purchase requirements of the secondary market. Fannie Mae, for example, will not buy directly from a bank any uninsured or guaranteed before Fannie Mae will consider purchasing them. As a result, many banks have amassed in their portfolios a large number of long-term, fixed-rate CRA mortgages, because these mortgages cannot be sold on the secondary market, banks are prevented from offering affordable mortgages to new low-income borrowers.

With Fannie Mae, Ford and Self-Help creating a guaranteed market for these loans, banks can originate affordable mortgage loans with the knowledge that they will be able to sell them.

- North Carolina State Employees' Credit Union Programs for Homebuyers

State Employees' Credit Union (SECU) operates two programs to finance members' home purchases: the First-Time Homebuyers Program and the Homestead Mortgage Program.

Both programs require that "the property to be financed must be a freestanding, traditional built home: factory-built homes, condominiums and townhouses, duplexes and triplexes are NOT acceptable collateral for a first-time homebuyer's loan."

Federal Housing Programs

As part of our contract with the Town of Chapel Hill, SPPRE identified and described "Federal Finance Programs for Transit, TODs and Related Projects." This eight (8) page matrix includes the following housing programs:

- Federal Transit Administration (FTA):
 - Livable Communities Initiative (LCI)
- U.S. Department of the Treasury
 - New Markets Tax Credits (NMTC)
- Fannie Mae
 - American Communities Fund (ACF)
 - America's Living Communities Plan
 - Smart Commute Initiative (SCI), includes the "Triangle Smart Commute Initiative

- American Dream Commitment
- Fannie Mae Multifamily Investments
- Mortgage-Backed Securities (MBS)
- U.S. Housing and Urban Development (HUD)
 - Economic Development Initiative (EDI)
 - Section 108 Loan Guarantee Program
 - Home Investment Partnerships Program (HOME)
 - American Dream Downpayment Initiative (ADDI)

Town of Chapel Hill

Optional ways to Facilitate the Financing and Development of Affordable Housing:

- Tax Abatements for a term to be negotiated and/or reduction of abatement at certain time periods
- Predevelopment grants and loans
- Soft Second Mortgages
- An accruing, low-interest, soft second loan that does not amortize until the project is generating sufficient cash flow
- Payment-in-Lieu-of-Taxes (PILOT)

Freeze property tax at pre-development rates for a predetermined period or allocate property tax as debt service for a Tax-exempt Revenue Bond for the proposed housing.

- Counseling for developers on how to obtain and use federal low-income housing tax credits (LIHTC)