AFFORDABLE HOUSING OPPORTUNITIES FOR LOW-MODERATE INCOME BUYERS

CHAPTER 1: A HISTORY OF AFFORDABLE HOUSING IN AMERICA

Course Overview

We encourage our customers to visit the FAQs section for further information regarding your educational experience. They are complete with step-by-step tutorials that we’ve designed with YOU in mind!

This course is designed to help licensees working with or considering working with buyers statistically designated as low to moderate income households by federal and state guidelines. The history and current environment for affordable housing will be explored with emphasis on identifying and overcoming, if possible, the challenges to making homeownership a reality for this market.

Course Learning Objectives

Upon completion of this course, the student will be able to:

- Summarize the physical evolution of housing in the U.S. since colonial times to the present and equate its impact on affordable housing.
- Explain why the federal government has been the single most important entity in promoting homeownership over the past century.
- Outline the volatile history of affordable homeownership from the Great Depression through the Savings and Loan crisis to the present.
- Review the rise and fall of the Savings and Loan industry and its contribution to affordable housing.
- Describe the rise in significance of state housing finance agencies in providing affordable housing.
- Discuss the financial crisis of 2008 and how it has affected our industry and society.
- Summarize the basic definitions of the terms and criteria used in identifying affordable housing.
- Assess the national, state, and local implications of public health based on the affordable housing industry.
- Use the Affordability Index to track past trends and their impact on affordable housing as well as future needs in development and land use in order to have a sustainable, affordable housing industry.
- Explain the impact of the affordable housing crisis on all Americans, and, specifically, its effect on the real estate industry.
- Identify local, state, and federal programs and resources/organizations in the housing industry that are available to low and moderate income buyers.
- Describe how to tap into the local affordable housing network for information and guidance in achieving homeownership for clients.
- Discuss the network of federal, state, and local entities working to provide affordable housing in America.
- Explain the invaluable contribution of home buyer counseling and how to use it to your buyer's advantage.
- Compare and contrast the eligibility and qualification requirements of programs available to your buyer in order to help him/her select the right lender to accomplish the goal.
- Demonstrate effectively prospecting for homes with the best chance of success for the buyer.
- List the team players who are instrumental in helping low-to-moderate income first-time buyers acquire their homes.
Chapter 1 Overview

In this chapter, a brief history of homeownership in the United States will be reviewed as it relates to affordable housing for American households. The origins and changing dynamics of making homeownership affordable to the majority of Americans will help the licensee to identify and appreciate the tools currently available because of this evolution. A glossary of commonly used acronyms and terms follows the text of this chapter.

Learning Objectives

Upon completion of this chapter, students will be able to:

- Summarize the physical evolution of housing in the U.S., from colonial times to the present, and equate its impact on affordable housing.
- Explain why the federal government has been the single most important entity in promoting homeownership over the past century.
- Outline the volatile history of affordable homeownership from the Great Depression through the Savings and Loan crisis to the present.
- Give a synopsis of the rise and fall of the Savings and Loan industry and its contribution to affordable housing.
- Describe the rise in significance of state housing finance agencies in providing affordable housing.
- Discuss the financial crisis of 2008 and how it has affected our industry and society.

Housing in America

The home itself has dramatically evolved since colonial times and continues to change to meet the demographic, social, political, and cultural forces in our current society.

Early homes were often small, one room structures based on European building methods as adapted to the new world. They were usually less than 500 square feet and were constantly remodeled and enlarged over time. Wealthy people had larger homes of about 2500 square feet.

As cities grew in the 19th century, row houses became the standard. They were narrow, often only 15 to 20 feet across and 30 to 40 feet deep. The bedroom was an invention of the late 1800's.

In the 20th century, lot sizes became larger and homes were often one or one and one-half stories, with square footage around 700. As people became consumers, not producers, storage became less important as plumbing, heating, and electricity increased the cost of building. Sizes of homes continued to rise even though household sizes were declining. Urban decay, crime, and high rents along with government incentives and cheap availability of cars gave rise to suburbia. Land was less expensive and lots became bigger as well.

Since the 1960's, children have come to expect their own bedroom as a right rather than a privilege. Home offices and media rooms are now common. By the mid 70's the average home was about 1500 square feet, and by 2003 the median size of a new home was around 2300 square feet.

Costs have risen sharply. A new home in 1900 was about $5,000. In 1950, a new home was $11,000, and in 2010 the price was $200,000. Although homes have grown in size, lot sizes are now on the decline. The average size of a new home lot in 1990 was 14,680 and had shrunk to 12,870 by 2010, according to the National Association of Home Builders.

With the rise of cities and population and demographic shifts, housing will continue to evolve. New communities will consist of mixed-use buildings, neo-traditional designs, and smaller lots with narrower streets. People prefer to live and work nearby and want commercial, recreational, and social centers close to home.

Government and Homeownership

Prior to about 1900, there was no real structure or environment for affordable housing development. Government was simply not a player in the housing or housing finance industries. In 1908, Theodore Roosevelt appointed a commission to explore the need for decent housing for low-income Americans. Nothing resulted from this exercise. The financial collapse of 1929 and the subsequent Great Depression changed everything.

The federal government has become the single most important entity in creating the political and economic culture of homeownership. Access to affordable mortgage financing has been promoted by the federal government, starting with the New Deal of the 1930's and continuing on to the S & L crisis of the 1980's. From Roosevelt through Obama, the presidents have all been involved in promotion of homeownership for Americans. The culture of homeownership has been deemed to be integral to the economic and social well-being of Americans.

The vehicles for government promotion of affordable housing are:

- Legislation
- Creation of government agencies
- Tax provisions
After the Wall Street calamity, the nation faced massive foreclosures and economic paralysis. Prior to the 1930’s, mortgage loans were, for the most part, restricted from 3 to 15 years in term, 50-60% loan to value, and most often carried a balloon provision. With the bank failures, there were 250,000 foreclosures between 1931 and 1935. At one point, 10% of American homes were in foreclosure.

The New Deal
Franklin Roosevelt’s response to the crisis facing America largely centered on the creation of new government entities to curb the tide of hopelessness:

- **The Home Ownership Loan Corporation (HOLC)** was established primarily as a mechanism to deal with foreclosure prevention. By 1936 it was no longer needed as other programs became enacted.

- **The Federal Housing Administration (FHA)** was created in 1934 and, for the first time, provided a standardized process for people to obtain mortgage loans which were insured by the federal government and thus attractive to lending institutions to originate. They involved the use of appraisals, credit analysis, and property inspections. The initial maximum loan to value ratio was 80%, a substantial increase over pre FHA loan limits. The maximum FHA loan was only $6,000, but that represented 85% of U.S. homes at that time.

- **The Federal National Mortgage Association (FNMA)** was created in 1938, provided a secondary market for FHA loans, and freed up lender capital to make loans more accessible to less wealthy buyers.

World War II and the Baby Boom
Due to the 16 million servicemen returning to civilian life and a significant lack of jobs and housing, the Veterans Administration Home Loan Guaranty Program was enacted in 1944. This became better known as the “GI Bill.” The loan was initially a guaranty by the government of 50% of the mortgage up to a maximum of $2,000, with a 20 year term and a 4% rate.

Housing starts in 1944 were 114,000. By 1946, they had increased to 937,000. By 1950, they had reached 1,692,000.

The effects were dramatic:

- 5 million veterans bought homes
- By 1960, 61.9% of Americans were homeowners

Federal Tax Code
Enacted in 1913, the tax code created the arguably inviolate mortgage interest and real estate tax deductions. These have remained intact for over 100 years.

The tax subsidy created by these deductions has created a gap between renters and owners. Many have argued that these deductions have kept homeownership an important social and economic goal for Americans to achieve.

Other Federal Programs

- **The Government National Mortgage Association (GNMA):** This program was created in 1968 and set up pools of government (FHA and VA) loans, and issued Mortgage Backed Securities (MBS) backed by the U.S. government.

- **The Federal Home Loan Mortgage Corporation (FHLMC)** became, in 1970, the secondary mortgage source for conventional loans.

- **The Community Development Block Grant (CDBG):** Since 1974, this program has provided federal funding for land acquisition and infrastructure improvements by states and localities. It has since been expanded to include rental and ownership grant programs administered by state and local governments.

- **HOME [actually not an acronym for anything!]:** In 1990, the Cranston-Gonzales National Affordable Housing Act set up funding by HUD for local and state housing development projects. With some of the funds earmarked to nonprofit organizations known as CHDOs (Community Housing Development Organizations), major new construction and rehabilitation projects have been created, specifically providing affordable housing to low and moderate income households.

- **Federal Home Loan Bank Board:** In 1990, the 12 Federal Home Loan banks, which primarily served the Savings and Loan industry, were required to create an affordable housing program by making subsidized cash advances to member institutions so that they could, in turn, make below-market-rate loans to entities providing affordable housing for rent or homeownership.

HUD Programs - Success and Failure
In 1968, Section 235 was added to the National Housing Act subsidizing the difference between the loan’s market rate and 1% for income-eligible borrowers on new construction or rehab properties. These were 100% loan to value loans. While HUD assisted 500,000 units between 1969 and 1973, the defaults that ensued exceeded 10%. There were scandals involving unscrupulous developers and the program was scrapped.

Under Section 502, the Rural Housing Service (formerly Farmers Home Administration) the government makes direct loans to low and moderate income borrowers at a 1% rate.
Savings and Loan Associations - From Boom to Bust

The savings and loan association was the unquestioned leading source of residential home mortgages in America. The very first savings and loan (S&L) opened in Philadelphia in 1831. Their mission was to become local lenders focused on helping average people acquire homes. The initial concept was amazingly simple: a person became a member by subscribing to shares (making deposits) in the organization. After reaching a certain level of deposits, the member could borrow funds to buy a home. The member would continue to make monthly payments on shares and pay interest on the borrowed funds until the loan was repaid.

By the late 19th century, with urban growth and demand for housing, there were associations in every state of the union totaling approximately 3,500 institutions. That number continued to grow and by 1914 there were over 6,000 associations in the country. By 1930 and the Great Depression, there were almost 12,000 institutions.

These associations, originally called Building and Loans (B&L’s), were nonprofit organizations which saw themselves as part of a broader social reform effort and not a financial institution. They helped people build savings habits and buy homes through mutual cooperation, thus strengthening personal morals.

Differences Between Commercial Banks and Savings & Loans

- Asset mix: Commercial banks – short term loans, often with balloon payments; S&L’s – longer term amortizing mortgages
- Liability mix: Commercial banks – demand deposits (checking); S&L’s – member deposits

Banks offered a variety of products to individuals and businesses while S&L’s usually only made home loans to working class people.

The Roaring 20’s and the Crash

By 1929, S&L’s provided 22 percent of all mortgages. Upper and middle class people were investing money safely and realizing good returns.

Enter the Government

By 1932, after the stock market crash and ensuing depression, almost 20% of all banks in America went out of business. Only 2% of the S&L’s met the same fate at that time. Nevertheless, the S&L industry faced the same economic challenges as any other business. As mentioned earlier, the Federal Home Loan Bank was formed in 1932 to shore up S&L’s facing fund shortages due to weak deposits. In the course of the next two years, federal involvement led to the creation of federally chartered S&L’s and a federal deposit insurance program (FSLIC).

Postwar Golden Age for S&L’s

In 1945, S&L’s held a respectable 7% of all consumer savings and 23% of single family home loans. However, the best was yet to come. As previously indicated in this chapter, millions of returning servicemen created an unprecedented surge in demand for new housing, and the ensuing baby boom added urgency for the market to provide opportunities in housing. S&L’s expansion was remarkable and continued into the 60’s. By 1965, the percentage of consumer savings controlled by S&L’s had risen to 26%, and now 46% of all single family mortgages were held by the thrift institutions.

Competition for savings dollars was intense, often resulting in “rate wars” between competing institutions. Toasters, microwaves, and all sorts of premiums were offered to open or add to accounts. Finally, in 1966, the government stepped in and set limits on savings rates both for commercial banks and S&L’s. A slight rate advantage was granted to the thrifts.

From 1966 to 1979, the country experienced “stagflation” characterized by slow economic growth, high interest rates, and inflation. Depositors faced with regulated rates at banks and S&L’s withdrew funds for deposit and placed them into market paying accounts offered by other financial institutions. This process was known as disintermediation.

Exit the Government

In 1980, faced with inflation, high interest rates, and the doubling of oil prices, the thrift industry was threatened with a catastrophe. This time, the government response was exactly opposite to the 1930’s intervention and innovation. This time, the response was deregulation and forbearance. The Depository Institutions Deregulation and Monetary Control Act of 1980 and the Garn-St. Germain Act of 1982 allowed thrifts the opportunity to offer expanded depository products and also allowed them to expand their lending authority. The intent was to give S&L’s the ability to compete with other financial institutions; however, these acts helped fuel the greatest financial crisis since the Great Depression.

Affordable Housing Programs Become Creative and a New Industry is Born

Before the financial setbacks of the 70’s and 80’s, housing in America was affordable to the majority of citizens. The programs initiated in the 30’s and beyond were enacted in order to make the American dream achievable for hard working families and individuals. Inflation and high interest rates destroyed that for millions of people in the 70’s and 80’s. Ironically, the birth of the current affordable housing industry coincided with this debacle.

Neighborhood activists, lenders with a social conscience, community leaders, and financial experts came together to devise affordable housing alternatives that would work in the damaged landscape of the American housing and mortgage industries.
Community Reinvestment Act

In 1977, Congress passed the Community Reinvestment Act (CRA) to reduce discriminatory credit practices against low-income neighborhoods, a practice known as redlining. The Act instructs the appropriate federal financial supervisory agencies to encourage regulated financial institutions to help meet the credit needs of the local communities in which they are chartered, consistent with safe and sound operation. To enforce the statute, federal regulatory agencies examine banking institutions for CRA compliance and take this information into consideration when approving applications for new bank branches or for mergers or acquisitions.

In 1989, in the wake of the S&L crisis, the Financial Institutions Reform and Enforcement Act (FIRREA) was enacted which expanded CRA to tighten up the ability of the federal regulatory agencies involved in monitoring depository institutions. This act determined that the lenders were meeting the credit needs of specific communities, including the low and moderate income neighborhoods within them.

In 1991, CRA was amended permitting the Resolution Trust Corporation (RTC) to be involved with lending under the CRA guidelines. The Resolution Trust Corporation was created to act as the conservator or receiver of failed S&L’s in the late 1980s taking over the assets of failed savings & loan institutions during that crisis. The 1991 amendment permitted the RTC to work with lending institutions in minority neighborhood to increase the availability of home loans to minority qualifying borrowers.

In 1992 the CRA required the two major government sponsored enterprises (Fannie Mae and Freddie Mac) involved in the purchase of mortgages to devote a percentage of their lending to support affordable housing.

Affordable Rental Housing

The Great Depression created public housing. In 1937, Congress enacted the United States Housing Act which created the statutory structure for public housing. This act was, for many years, the nation’s prime affordable housing effort. Local public housing authorities were created to own and administer public housing. These agencies, known as Public Housing Authorities (PHA), now number over 3,000. Originally created for nuclear families who had fallen on hard times during the Depression, these agencies expanded during the war to house defense workers and, after the war, faced massive housing shortages. These agencies were expanded under the Housing Act of 1949 to include 810,000 units.

The demographics of public housing changed dramatically over the years as relatively easy home ownership terms allowed many middle class families to purchase their own homes. PHA’s had to charge rent sufficient to cover operating expenses, which was as high as 60 to 70 percent of household income. Congress capped the rent at 25% and, shortly thereafter, raised it to the still current 30% of household income. This of course created a shortage which could only be made up by the federal government. Public housing had initially set maximum income for tenants at 80%, but in 1981 Congress limited occupancy to lower-income families (less than 50% of Area Median Income or AMI). 40% of units were also to be reserved for very low-income households (30% of AMI).

The Private and Non Profit Sectors Enters

Prior to 1959, public housing provided the majority of what was deemed to be affordable housing. That year, the Housing Act of 1959 created the Section 236 program which was designed to provide direct loans to nonprofit developers of housing for the elderly. This program has been oversubscribed for decades and provides more than 350,000 units for citizens.

In 1961, under the John F. Kennedy administration, a revolutionary program was born: The 221(d)(3) Below Market Interest Rate (BMIR) program. This program put the private sector squarely in the middle of affordable rental housing as Fannie Mae purchased loans at a 3% rate. These loans were primarily made to limited dividend sponsors. The developers would pass through the subsidy to tenants in the form of reduced rents. This program lasted 7 years and produced 800,000 units.

The Section 236 and Section 515 evolved during the mid-60’s in the midst of great urban unrest and deplorable housing conditions for low-income Americans, especially minorities. The 236 program of 1968 allowed a private lender to make a loan to a limited dividend or nonprofit developer at market rate, about 7%. HUD would then subsidize the rate down to 1%, thus allowing rents to be reduced even further than the 221(d)(3) program. Its counterpart for rural areas, the 515 program, was administered by the Farmers Home Administration, now the Rural Housing Service. The programs produced 544,000 units in urban areas and 450,000 units in rural areas.

These programs were undercut by inflation which caused rents to rise beyond affordability for many households. On January 8, 1973, Richard Nixon declared a moratorium on all federally assisted housing programs, a great day of agony for the affordable housing community. However, the President did commission a task force to come up with a replacement program, and on September 19, 1973, Section 23, soon to be renamed Section 8, was born. Under its final form, the Housing and Community Development Act of 1974, Section 8, HUD, would subsidize the difference between the contract rent with the landlord and the amount required from the tenant based on the tenant’s financial qualifications.

The subsidy would be provided either directly from HUD or through an approved state finance agency. The contract rent is based on Fair Market Rent or FMR established for the local market and the portion of the rent required from the tenant is based on the tenant’s income compared to the area median income in the local market.

Tax Incentives

The 1986 Tax Reform Act created the Low Income Housing Tax Credit (LIHTC) where individuals or corporations could help provide funding for low-moderate income rental projects and achieve a dollar for dollar tax credit, not deduction, on their income taxes. The limitations were limiting occupancy to 50 or 60 percent of AMI, limiting the credit to qualified low-income units, and a recapture provision if the units are not occupied by Affordable Housing Opportunities for Low-Moderate Income Buyers
low-income persons. Over a million units have been produced under this program, which has cobbled forward over recent rocky economic and political times.

State Housing Financing Agencies

State Housing Financing Agencies (HFA’s) became a factor in homeownership in the early 70’s through the sale of tax-exempt mortgage revenue bonds. The HFA would then pass along these bonds as interest rate savings on mortgages to qualified low and moderate-income first time homebuyers. With high rates prevalent in the early 1980’s, the rate could be reduced from 2 to 4 percent under these programs. Since inception, HFA’s have issued approximately $260 billion in mortgage revenue bonds, funding mortgages for almost 3 million households.

HFA’s are also the primary administrator for rental housing programs, including the Low Income Housing Tax Credit (LIHTC) program.

The 1968 Housing Act and 1968 Revenue and Expenditure Control Act permitted federal funding to states to develop rental housing and authorized the use of tax exempt revenue bonds for residential real property for family units. By 1987, 47 states had an HFA and by 2002, all states and Puerto Rico, the U.S. Virgin Islands, and the District of Columbia had an HFA as well.

State HFA’s have become self-sustaining, requiring no state budget allocations or subsidies beyond the federal tax expenditures to incentivize the bonds. Their success has been due to the attraction of institutional and individual investors into the long-term capital market. These investors would typically purchase tax-exempt securities but not residential mortgage securities.

Eligible borrowers were restricted to households earning less than 115 percent of AMI and eligible homes less than 90 percent of the area’s average home price, with exceptions for target areas.

HFA’s have now become a substantial source of Down Payment and Closing Cost Assistance and promote and sponsor Homebuyer Education Programs.

Following is a list of State HFA’s with contact information. Each is an important resource for all licensees interested in becoming familiar with a substantial resource for financing for moderate-income buyers. You can also find state information on their website: https://www.ncsha.org/housing-help.

Agency - Address, Phone, Fax

- Alabama Housing Finance Authority 2000 Interstate Park Drive, Suite 408/ Montgomery, AL 36109 (334) 244-9200 (334) 244-9214
- Alaska Housing Finance Corporation PO Box 101020/ Anchorage, AK 99510-1020 (907) 338-1600 (907) 338-2585
- Arizona Department of Commerce/Office of Housing and Infrastructure Development 3800 North Central, Suite 1200/ Phoenix, AZ 85102 (602) 280-1365 (602) 280-1470
- Arkansas Development Finance Authority PO Box 8023/ Little Rock, AR 77203-8023 (501) 682-5900 (501) 682-5939
- California Housing Finance Agency 1121 L Street, 7th Floor/ Sacramento CA 95814 (916) 322-3991
- California Tax Credit Allocation Committee 915 Capitol Mall, Room 485/ PO Box 942809/ Sacramento, CA 94209-0001 (916) 654-6340 (916) 654-6033
- Colorado Housing and Finance Authority 1981 Blake Street/ Denver, CO 80202-1272 (303) 297-2432 (303) 297-0911
- Connecticut Housing Finance Authority 999 West Street/ Rocky Hill, CT 06067-4005 (860) 721-9501 (860) 571-4367
- Delaware State Housing Authority 18 The Green,/ Dover, DE 19901 (302) 577-3720 (302) 739-6122
- District of Columbia Department of Housing and Community Development 815 Florida Avenue NW/ Washington DC 20001 (202) 777-1600 (202) 986-6705
- Florida Housing Finance Corporation 227 North Bronough Street, Suite 500/ Tallahassee, FL 32301-1329 (850) 488-4197 (850) 488-9809
- Georgia Department of Community Affairs/Georgia Housing and Finance Authority 60 Executive Park South, NE/ Atlanta, GA 30329 (404) 679-4940 (404) 679-4837
- State of Hawaii Housing Finance and Development Corporation 677 Queen Street, Suite 300/ Honolulu, HI 96813 (808) 587-0640 (808) 587-0588
- Idaho Housing and Finance Association PO Box 7899/ 565 West Myrtle/ Boise, ID 83707-1899 (208) 331-4882 (208) 331-4801
- Illinois Housing Development Authority 401 North Michigan Avenue, Suite 900/ Chicago, IL 60611 (312) 836-5200 (312) 832-2189
- Indiana Housing Finance Authority 115 West Washington, South Tower, Suite 1350 / Indianapolis, IN 46204 (317) 232-7777 (317) 232-7778
- Iowa Finance Authority 100 East Grand Avenue, Suite 250/ Des Moines, IA 50309 (515) 242-4990 (515) 242-4957
- Kansas Housing Resources Corporation 1000 SW Jackson St. Suite 150/ Topeka, KS 66612 (785) 296-5865 (785) 296-8985
- Kentucky Housing Corporation 1231 Louisville Road/ Frankfort, KY 40601 (502) 564-7630 (502) 564-7322
- Louisiana Housing Finance Agency 2415 Quail Drive/ Baton Rouge, LA 70808 (225) 763-8700 (225) 763-8710
• Maine State Housing Authority 353 Water Street/ Augusta, ME 04330-4633 (207) 626-4600 (207) 626-4678
• Maryland Department of Housing and Community Development 100 Community Place/ Crownsville, MD 21032-2023 (410) 514-7007 (410) 987-4070
• Massachusetts Housing Finance Agency One Beacon Street/ Boston, MA 02108-3110 (617) 854-1000 (617) 854-1029
• Michigan State Housing Development Authority Plaza One Building, Fourth Floor/ 401 South Washington Square/ Lansing, MI 48909 (517) 373-6007 (517) 373-2450
• Minnesota Housing Finance Agency 400 Sibley Street, Suite 300/ St. Paul, MN 55101 (651) 296-7608 (651) 296-8139
• Mississippi Home Corporation 840 East River Place/Suite 605/ Jackson, MS 39202 (601) 354-6062 (601) 718-4642.
• Missouri Housing Development Corporation 3435 Broadway/Kansas City, MO 64111 (816) 759-6600 (816) 759-6828
• Montana Board of Housing/Housing Division 836 Front Street/PO Box 2000528/Helena, MT 59620-0528 (406) 444-3040 (406) 444-4688
• Nebraska Investment Finance Authority 1230 O Street, Suite 200/ Lincoln, NE 68508 (402) 434-3900 (402) 434-3921
• Nevada Housing Division 1802 North Carson, Suite 154/ Carson City, NV 89701 (702) 687-4258 (702) 687-4040
• New Hampshire Housing Finance Authority PO Box 5087/ Manchester, NH 03108 (603) 472-8623 (603) 472-8501
• New Jersey Housing and Mortgage Finance Agency 637 South Clinton Avenue/ PO Box 18550/ Trenton, NJ 08650-2085 (609) 278-7400 (609) 278-1754
• New Mexico Mortgage Finance Authority 344 4th Street SW/ Albuquerque, NM 87102 (505) 843-6880 (505) 243-3289
• New York State Division of Housing and Community Renewal Hampton Plaza, 38-40 State Street, 5th Floor, Albany, NY 12207 (518) 486-3370 (518) 473-9462
• North Carolina Housing Finance Agency 3508 Bush Street Raleigh, NC 27609-7509 (919) 781-6115 (919) 571-4960
• North Dakota Housing Finance Agency Mailing address:
  o PO Box 1535/ Bismarck ND 58502-1535
  o Office location: 1500 East Capitol Avenue/ Bismarck, ND 58501 (701) 328-8080 (701) 328-8090
• Ohio Housing Finance Agency 57 East Main Street/ Columbus, OH 43215-5135 (614) 466-7970 (614) 644-5393
• Oklahoma Housing Finance Agency 100 Northwest 63rd St, Suite 200/ Oklahoma City, OK 73116 (405) 848-1144 (405) 840-1109
• Oregon Housing and Community Services Department 1600 State Street/ Salem, OR 97310-0302 (503) 986-2000 (503) 986-2020
• Pennsylvania Housing Finance Agency PO Box 8029/ Harrisburg, PA 17105-8029 (717) 780-3800 (717) 780-3905
• Puerto Rico Housing Finance Corporation PO Box 71361/ San Juan PR 00936-1361 (787) 765-7577 (787) 754-1440
• Rhode Island Housing and Mortgage Finance Corporation 44 Washington Street/ Providence RI 02903-1721 (401) 457-1284 (401) 457-1138
• South Carolina State Housing Finance and Development Authority 300-C Outlet Pointe Blvd./ Columbia, South Carolina 29210 (803) 796-9001
• South Dakota Housing Development Authority 221 South Central/ PO Box 1237/ Pierre SD 57501-1237 (605) 773-3181 (605) 773-5154
• Tennessee Housing Development Authority 404 James Robertson Parkway, Suite 1114/ Nashville, TN 37243-0900 (615) 741-2400 (615) 741-2400
• Texas Department of Housing and Community Affairs POBox 13941/ Austin, TX 78711-3941 (512) 475-3800 (512) 469-9606
• Utah Housing Finance Agency 554 South 300 East/ Salt Lake City, UT 84111 (801) 521-6950 (801) 359-1701
• Vermont Housing Finance Agency PO Box 408/ 164 St. Paul Street/ Burlington VT 05402-0408 (802) 864-4342 (802) 864-5746
• Virginia Islands Housing Finance Authority 210-3A Altona/Frostco Bldg. Suite 101/PO Box 308760/ Charlotte Amalie, U.S. Virgin Islands 00802 (340)774-4481(340) 777-8942
• Virginia Housing Development Authority 601 South Belvidere Street/ Richmond, VA 23220-6504 (804) 782-1986 (804) 783-6741
• Washington State Housing Finance Commission 1000 Second Avenue/ Suite 2700/ Seattle, WA 98104-1046 (206) 464-7139 (206) 587-5113
• West Virginia Housing Development Fund 814 Virginia Street East/ Charleston, WV 25301 (304) 345-6475 (304) 345-4828
• Wisconsin Housing and Economic Development Authority PO Box 1728/ Madison, WI 53701-1728 (608) 266-7884 (608) 267-1099
• Wyoming Community Development Authority 155 N. Beech/ Casper, WY 82601 Mailing: PO Box 634, Casper WY 82602 (307) 265-0603 (307) 266-5414
Financial Crisis of 2008

The effects of what happened in September, 2008 are still being felt and will long continue to be evaluated and debated. This much is clear: Lehman Brothers, a mega global bank, collapsed that month, almost bringing down the world’s financial system. Massive monetary and fiscal stimulus prevented a depression, but recovery is still not complete. Irresponsible mortgage lending in the years leading up to the crisis in America (Subprime) made mortgage credit available to borrowers with poor credit and with no ability to repay them. Banks made these loans because they maintained that values would continue to rise on a national scale.

Mortgages were pooled and used to back securities, known as collateralized debt obligations (CDO’s). Moody's and S & P gave these bogus AAA credit ratings, investors gobbled them up, and, unfortunately, the federal regulators turned a blind eye. In 2006, America suffered a nationwide housing price slump and the clock started ticking. CDO’s became virtually worthless, as did the complex instruments they backed. Accusations continue as to who was to blame, but the results remain the same. To this day the real estate and mortgage markets in America are forever changed. Many believe the pendulum has swung the opposite direction, with credit and appraisal underwriting now becoming more conservative than ever.

For a concise and visual description of the crisis, watch the YouTube link below:

Glossary of Terms and Acronyms Used in the Affordable Housing Industry

AM – Area Median Income: Used for determining eligibility for virtually all affordable housing programs
CDBG – Community Development Block Grant: Federal funding to state and local governments for housing development
CDC – Community Development Corporation
CHODO – Community Housing Development Organization: Non-profit development corporations
CRA – Community Reinvestment Act: 1977 Act designed to reduce discriminatory credit practices
FHA – Federal Housing Administration: Federal mortgage insurance program used to promote lending by private lenders
FHLBB – Federal Home Loan Bank Board: S&L Industry regulator
FHLMC – Federal Home Loan Mortgage Corporation (Freddie Mac): Secondary mortgage source for conventional loans
FMR – Fair Market Rent: Government determined rental rate for Section 8 units
FNMA – Federal National Mortgage Association (Fannie Mae): Secondary market for FHA loans
FSLIC – Federal Savings and Loan Insurance Corporation
HFA – State Housing Finance Agencies: Issues tax-exempt mortgage revenue bonds and makes direct home and commercial loans, administers LIHTC programs
HOLC – Home Ownership Loan Corporation: Defunct federal foreclosure prevention program
HOME – Not an acronym but a HUD housing development funding program created in 1990
HOLC – Home Ownership Loan Corporation
HTF – Housing Trust Fund: Provide government funds for 80% and below AMI projects
LIHTC – Low Income Housing Tax Credit: 1986 Act created to fund low and moderate income rental projects with tax credits issuing capability
MBS – Mortgage Backed Securities
NDC – Neighborhood Development Corporation: Non-profit
NIMBY – Not in My Backyard
PHA – Public Housing Authority: 3,000 nationwide local administrators of public housing
PMI – Private Mortgage Insurance: Conventional loans
RTC – Resolution Trust Corp.: 1991 Act created to be conservator or receiver of failed S&L’s
Section 8 - Government rent subsidy: Individual vouchers or project based
VA – Veterans Administration
203(b) – FHA home loan
203(k) – FHA rehab loan
235 – HUD 1% loan program (defunct)
236 – HUD Subsidized Developer Loan program (defunct)
515 – Farmers Home Administration (now Rural Housing Service) developer loan (defunct)
CHAPTER 2: THE CURRENT ENVIRONMENT AND CRISIS IN AFFORDABLE HOUSING

Chapter 2 Overview

The purpose of this chapter will be to educate the licensee about the challenges facing the affordable housing industry in current U.S. markets. The role of the local, state, and federal governments will be examined and some trends and future initiatives will be explored.

Learning Objectives

Upon completion of this chapter, students will be able to:

- Summarize the basic definitions of the terms and criteria used in identifying affordable housing.
- Assess the national, state, and local implications of public health based on the affordable housing industry.
- Use the Affordability Index to track past trends and their impact on affordable housing as well as future needs in development and land use in order to have a sustainable, affordable housing industry.
- Explain the impact of the affordable housing crisis on all Americans, and, specifically, its effect on the real estate industry.

What is Affordable Housing?

The Affordable Housing Industry is a loosely defined conglomeration of local, state, and federal employees of agencies involved in the business of funding, subsidizing, promoting, or regulating affordable housing programs in America, nonprofit organizations involved in affordable housing development, mortgage funding and assistance, homeownership counseling, property management and credit counseling, and lenders and realtors practicing their trades with an emphasis on serving low and moderate income households.

Low and Moderate Income

Low income is defined as households whose income falls in the range of 50% to 80% of AMI. Very Low income includes households below 50% of AMI.

The U.S. Department of Housing and Urban Development (HUD) provides annual data for each county in each state of the U.S. Current data for any specific location can be obtained from the following link: http://www.huduser.org/portal/datasets/il/il2015/select_Geography.odn

Other sources for this data are state and county housing agencies and state finance authorities.

Affordable Housing Crisis in America

Despite decades of programs designed to promote homeownership, America’s low and moderate income population remains vastly underserved. The American Journal of Public Health states: “For many poor Americans, having a decent home and suitable living environment remains a dream. This lack of adequate housing is not only a burden for many of the poor, but it is harmful to the larger society as well, because of the adverse effects of inadequate housing on public health. Not only is the failure to provide adequate housing short-sighted from a policy perspective, but it is also a failure to live up to societal obligations. There is a societal obligation to meet the housing needs of everyone, including the most disadvantaged. Housing assistance must become a federally-funded entitlement.”

Americans are losing faith that the housing crisis which is now almost 10 years old is over. 81% believe that affordability is a problem in America today. In a study released by the MacArthur Foundation in June, 2016, “Too many Americans today believe the dream of a decent, stable home, and the prospects for social mobility, are receding,” according to MacArthur President Julia Stasch. “Having a decent, stable, affordable home is about more than shelter: It is at the core of strong, vibrant, and healthy families and communities. This survey demonstrates that the public wants action to address the nation’s real and pervasive housing affordability challenges.” Click the following link to see a summary of the study: https://www.macfound.org/press/press-releases/pessimism-about-prolonged-affordable-housing-crisis-rise-2016-how-housing-matters-survey-finds/
The Joint Center for Housing Studies of Harvard University concludes: “The national homeownership rate marked its ninth consecutive year of decline in 2013, affecting most segments of the population. The drop among minorities is particularly troubling, given their growing presence in the housing market. While affordability conditions remain favorable, rising home prices and interest rates – along with continued tight credit – have made home buying more of a stretch for some households. These shifts could mean that fewer Americans will be able to become homeowners in the future.”

Homeownership has fallen to about 65% in America, but the drop has been most dramatic in younger Americans, particularly those in the 25-34 and 35-44 year range. Declines in rates for minorities have exceeded those for white households. The gap between white-black is almost 30%, and only slightly lower for white-Hispanic (27%).

In addition, fewer of today’s young adults are married and fewer have high incomes. Coupled with that is the rise in prices, the increase in interest rates, and more restrictive credit underwriting standards. FHA mortgage insurance premiums have increased to cover administrative costs.

Why Should We Care?

Many of us operate in markets that are recovering from the 2008 Crisis and are experiencing a boom in property values and an inventory of homes that are easier than ever to sell. Homeowners are coming out from under the negative gloom of lost equity and rising prices. Millions of owners are back in the black, thus not needing to sell under duress. The lack of supply has continued to boost prices in most areas, thus making homes less affordable.

Large institutional investors bought more than 200,000 homes in 2012 and 2013 along with smaller individual investors looking to fuel a rush to homeownership, particularly with the offsetting conditions blocking it.

Low inventories have had an enormous drag on affordability. Several factors have contributed to this situation. Although there are still many distressed and underwater homeowners, delinquency rates have fallen. With price appreciation, millions of owners are back in the black, thus not needing to sell under duress. The lack of supply has continued to boost prices in most areas, thus making homes less affordable.

Job growth, while steady, has remained unspectacular, thus not fueling a rush to homeownership, particularly with the offsetting conditions blocking it.

Much has been said and written about the millennial generation. Many burdened with staggering student loan debt are living in their parents’ homes. Between 2001 and 2010, households aged 25 to 34 with student loan debt increased from 26% to 39%, and the median amount of student loan debt rose from $10,000 to $15,000, with 16% shouldering debt over $50,000. Approximately 21 million more adults in their 20’s and 300,000 more in their 30’s lived with their parents in 2013.

Additionally, the aging of the Baby Boomers has affected the supply of housing. Many are choosing to make improvements and modifications so that they can age in place while many others are seeking alternative senior housing options.

Many would still argue that there is an explicit contract between the country and its population to provide adequate housing as spelled out in the Housing Act of 1949, which stipulates the “realization as soon as feasible of the goal of a decent home and suitable living environment for every American family.” While federal, state, and local policies still mandate a minimal level of housing, these mandates are insufficient to meet the housing needs of our most disadvantaged citizens.

Measuring Affordability

There are different methodologies utilized in measuring housing affordability. The following is the National Association of Realtors methodology:
The NATIONAL ASSOCIATION OF REALTORS® affordability index measures whether or not a typical family could qualify for a mortgage loan on a typical home. A typical home is defined as the national, median-priced, existing single-family home as calculated by NAR. The typical family is defined as one earning the median family income as reported by the U.S. Bureau of the Census. The prevailing mortgage interest rate is the effective rate on loans closed on existing homes from the Federal Housing Finance Board. These components are used to determine if the median income family can qualify for a mortgage on a typical home.

To interpret the indices, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that a family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment. For example, a composite HAI of 120.0 means a family earning the median family income has 120% of the income necessary to qualify for a conventional loan covering 80 percent of a median-priced existing single-family home. An increase in the HAI, then, shows that this family is more able to afford the median priced home.

The calculation assumes a down payment of 20 percent of the home price and it assumes a qualifying ratio of 25 percent. That means the monthly P&I payment cannot exceed 25 percent of the median family monthly income.

Historically, from 1989 through 2015, some significant statistics are worth noting:

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Price Single Family</th>
<th>Mortgage Rate</th>
<th>Median Family Income</th>
<th>Qualifying Income</th>
<th>Affordability Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>94,600</td>
<td>10.11</td>
<td>34,213</td>
<td>32,160</td>
<td>106.4</td>
</tr>
<tr>
<td>1990</td>
<td>97,300</td>
<td>10.04</td>
<td>35,353</td>
<td>32,880</td>
<td>107.5</td>
</tr>
<tr>
<td>1991</td>
<td>102,700</td>
<td>9.30</td>
<td>35,939</td>
<td>32,592</td>
<td>110.3</td>
</tr>
<tr>
<td>1995</td>
<td>117,000</td>
<td>7.85</td>
<td>40,611</td>
<td>32,496</td>
<td>125.0</td>
</tr>
<tr>
<td>1998</td>
<td>136,000</td>
<td>7.10</td>
<td>46,737</td>
<td>35,088</td>
<td>133.2</td>
</tr>
<tr>
<td>2000</td>
<td>147,300</td>
<td>8.03</td>
<td>50,732</td>
<td>41,616</td>
<td>121.9</td>
</tr>
<tr>
<td>2003</td>
<td>180,200</td>
<td>5.74</td>
<td>52,680</td>
<td>40,320</td>
<td>130.7</td>
</tr>
<tr>
<td>2005</td>
<td>219,000</td>
<td>5.91</td>
<td>56,194</td>
<td>49,920</td>
<td>112.6</td>
</tr>
<tr>
<td>2006</td>
<td>221,900</td>
<td>6.58</td>
<td>58,407</td>
<td>54,288</td>
<td>107.6</td>
</tr>
<tr>
<td>2009</td>
<td>172,100</td>
<td>5.14</td>
<td>61,082</td>
<td>36,048</td>
<td>169.4</td>
</tr>
<tr>
<td>2011</td>
<td>166,200</td>
<td>4.67</td>
<td>61,455</td>
<td>32,976</td>
<td>186.4</td>
</tr>
<tr>
<td>2012</td>
<td>177,200</td>
<td>3.83</td>
<td>62,531</td>
<td>31,824</td>
<td>196.5</td>
</tr>
<tr>
<td>2013</td>
<td>197,400</td>
<td>4.00</td>
<td>62,623</td>
<td>36,192</td>
<td>175.8</td>
</tr>
<tr>
<td>2014</td>
<td>208,900</td>
<td>4.31</td>
<td>65,321</td>
<td>39,744</td>
<td>164.4</td>
</tr>
<tr>
<td>2015</td>
<td>223,900</td>
<td>4.03</td>
<td>67,507</td>
<td>41,184</td>
<td>162.8</td>
</tr>
</tbody>
</table>

In the late 1980’s, with rates coming off all-time highs, the affordability index, even though median housing prices were under 100,000, was just barely over 100. Over the course of the 1990’s, income rose, as did housing prices. However, interest rates dropped under 8 and remained there throughout the decade. Corresponding affordability also remained steady, mostly staying in the 120’s. The decade of the 2000’s showed much volatility, with rates reaching all-time lows and prices falling dramatically after the financial crisis of 2008. Affordability recorded lofty numbers in 2012, reaching 196.5. The past two years have seen spikes in prices as inventory reaches record lows. Although rates remain low, many low and moderate income buyers are being priced out of affordability in strong seller dominated markets.

The real story is much more dramatic when viewed on a local rather than national level. Since 2011, virtually every metropolitan area in the country has seen nothing but declines in the affordable index. Some selected cities are cited below:

<table>
<thead>
<tr>
<th>City</th>
<th>Change through 2013</th>
<th>Projected for 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td>-33.4%</td>
<td>-7.7%</td>
</tr>
<tr>
<td>Boston</td>
<td>-14.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Chicago</td>
<td>-15.1%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Dallas</td>
<td>-15.0%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Denver</td>
<td>-16.1%</td>
<td>-4.5%</td>
</tr>
</tbody>
</table>

Affordable Housing Opportunities for Low-Moderate Income Buyers
<table>
<thead>
<tr>
<th>City</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houston</td>
<td>-15.1%</td>
<td>-5.7%</td>
<td></td>
</tr>
<tr>
<td>Jacksonville</td>
<td>-22.6%</td>
<td>-7.9%</td>
<td></td>
</tr>
<tr>
<td>Los Angeles</td>
<td>-24.5%</td>
<td>-6.1%</td>
<td></td>
</tr>
<tr>
<td>Miami</td>
<td>-21.3%</td>
<td>-6.2%</td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>-9.0%</td>
<td>4.3%</td>
<td></td>
</tr>
<tr>
<td>Phoenix</td>
<td>-24.5%</td>
<td>-5.0%</td>
<td></td>
</tr>
<tr>
<td>Sacramento</td>
<td>-31.8%</td>
<td>-7.4%</td>
<td></td>
</tr>
</tbody>
</table>

Some metropolitan areas have dropped below the 100% threshold:

<table>
<thead>
<tr>
<th>City</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honolulu</td>
<td>67.7%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>73.0%</td>
</tr>
<tr>
<td>New York</td>
<td>81.6%</td>
</tr>
<tr>
<td>San Diego</td>
<td>77.6%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>70.5%</td>
</tr>
<tr>
<td>San Jose</td>
<td>64.3%</td>
</tr>
</tbody>
</table>

When examining the affordability index for first-time homebuyers, the numbers are considerably lower. Using a 10% down payment and incorporating mortgage insurance into the effective interest rate, with a starter home price somewhat lower than the median home price and corresponding lower median income levels, the numbers for the last three years are:

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>129.7%</td>
<td>116.7%</td>
<td>108.4%</td>
</tr>
</tbody>
</table>

When examining the affordability index for first-time homebuyers, the numbers are considerably lower. Using a 10% down payment and incorporating mortgage insurance into the effective interest rate, with a starter home price somewhat lower than the median home price and corresponding lower median income levels, the numbers for the last three years are:

Crisis in Rental Affordable Housing

Clearly, the first time a low-moderate income population is slipping below the break-even point. Many cities have become completely unaffordable for these buyers.

The crisis is not confined to homeownership. Affordable rental housing is becoming unreachable for many Americans already priced out of buying. According to the National Low Income Housing Coalition, there are just 31 affordable housing units for every 100 families who need them. The hourly wage needed to afford a two-bedroom unit in 2014 was $18.92. That number is 2 ½ times the federal minimum wage and 52% higher than in 2000. There are no states in the country where a full-time minimum wage worker can afford a one-bedroom, let alone a two-bedroom unit at the Fair Market Rent. A growing share of the population is seeking a rental home rather than buying. The recession so damaged credit that many homeowners have been forced into the rental market, causing demand and prices to rise.

The good news is that the market has responded with multi-family housing construction and has recovered to pre-recession levels. However, single-family housing has lagged behind (although in many markets, it is making remarkable strides with the inventory crisis).

Many people involved in low-moderate rental housing advocate addressing the problem on other social fronts, such as easing zoning restrictions in order to promote more density in economically productive areas like New York and San Francisco. Other ways to combat decreased affordability in new units include promoting government restoration of existing public housing and providing better public transportation systems which encourage density. Government can also ease the crisis by attacking the other economic and social needs of its population: food, medical care, and education.

Developing Affordable Housing

Affordable housing is not a liberal or conservative issue or platform. However, it certainly has been politicized for generations and can be a polarizing issue between supporters and detractors. The lack of affordable housing is a national, local, and state issue and affects all Americans. Housing price appreciation has forced many low and moderate income families out of the home buying market. Other factors have also conspired to make rental housing less affordable for many. The Urban Land Institute, with the support of Fannie Mae, has published "Ten Principles for Developing Affordable Housing" in which it proposes that all communities should promote and "support the development of housing for people and families at a variety of income levels." They should do this not just because it is the right thing to do, but because it makes sense from the perspective of economic development. "The availability of decent housing that is close to work and affordable for the jobholders upon which the proper functioning of the local economy depends is essential to the community's economic health."

Every community needs teachers, firefighters, police officers, municipal employees, health care workers, contractors, landscapers, and retail salespersons, yet often some of these communities do nothing to ensure that these workers can afford housing within a reasonable distance from their jobs. It is not just the essential workforce that needs access to affordable housing, but young adults just starting out in careers, parents needing low maintenance affordable housing, disabled people, or veterans suffering from injuries. It is in the best interest of everyone that diverse populations all have access to affordable housing and do not exclude entire segments of society.
Real estate licensees who derive their livelihood from this industry should be proponents and advocates for affordable housing regardless of whether they specialize in this aspect of the market. The health of all communities depends on a functioning, affordable housing market. While this concept is relatively easy to sell, the challenge is to achieve a consensus on how to solve the need to create affordable housing. Community leaders need to be contacted by leaders in our industry to do the right thing and ultimately support fairness and equity.

**NIMBY (Not in my backyard)** is a term often closely identified with affordable housing and has become both a noun and verb used in discussions about affordable housing. Nimbyism is a complicated issue and strikes chords that run deep. In our society and industry we continually run into opposition against both public and subsidized housing. The National Association of Realtors® provides data that we can use to demonstrate that affordable and fair housing are necessary to building and maintaining vibrant communities and protecting property values. http://www.realtor.org/field-guides/field-guide-to-effects-of-low-income-housing-on-property-values

**Individualism vs. Social Responsibility:** The Protestant work ethic contends that through hard work, determination, and self-discipline, people can achieve success and material rewards. However, it inversely implies that if you are poor, it’s your own fault. On the other hand, the Judeo-Christian charitable ethic teaches that we should all be compassionate and lend assistance to the weak and poor. The result of these competing forces is often manifested in guilt, shame, and anger. When it comes to affordable housing, the neighbors who scream “Not in My Backyard” often breach their own ethical standards of sacrifice and charity. These people often invoke justifications such as opposition because of perceived adverse effects on property values, increased crime, etc. or even oppose development because it is not in the best interests of the perceived target population to be served by the affordable housing development (e.g. the site is too steep for seniors). Reconciling these competing forces is a continuing struggle in the development of affordable housing. Proponents and opponents can learn to work together if each recognizes that the person or group on the other side is not universally evil nor are they universally righteous.

### NAR and Affordable Housing

Our own trade association, the **National Association of Realtors®**, actively and aggressively supports affordable housing and has stated that “Most studies indicate that affordable housing has no long term negative impact on surrounding home values. In fact, some research indicates the opposite!” They have published a list of articles and studies examining the effects of low-income, public, and subsidized housing on the values of surrounding properties, the challenge of NIMBY, and the resources available to educate groups and governments. Some of the studies include:

- “The Effects of Assisted Rental Housing in Delaware” – central findings are that the location of assisted multifamily rental housing is typically not associated with any subsequent changes in the values of neighboring properties.
- “Fear of Affordable Housing: Perception vs. Reality” – this study concludes housing prices show no impact.
- “Affordable Housing Pays off for City” – found that lower rent means more money for residents to spend on everything else, from health care to groceries, which boosts business and property values.

Click on this link to see these and other studies: http://www.realtor.org/field-guides/field-guide-to-effects-of-low-income-housing-on-property-values

**NAR’s Housing Opportunity Program** helps Realtors become leaders in promoting home ownership at local, state, and national levels. Specific suggestions for Realtors include:

- Attend or Sponsor an Employer-Assisted Housing or Expanding Housing Opportunities class
- Become an EHO or EAH class instructor
- Apply for funding to support a housing program
- Become involved with Workforce Housing
- Join the Workforce Housing Online Community

Click the following link to access the website: http://www.realtor.org/programs/housing-opportunity-program

### Is Fair Housing Really “Fair” in America?

In a landmark decision just handed down by the Supreme Court on June 24, 2015, the court affirmed a Court of Appeals decision in a case in which a non-profit group, the Inclusive Communities Project, said that the Texas Department of Housing and Community Affairs had contributed to “segregated housing patterns by allocating too many tax credits to housing in predominantly black inner-city areas and too few in predominantly white suburban neighborhoods.” In cities all across America, low and moderate income housing continues to contribute to segregation, while the majority of statistics prove that by creating affordable housing in affluent areas, everyone wins. This decision allows for the notion of “disparate impact” in housing cases. This means that statistics and other evidence can be used to show that decisions and practices have discriminatory effects without proving that they are the result of discriminatory intentions.

The 1968 Fair Housing Act, which we are honor bound to support in our industry, says that it is illegal to “refuse to sell or rent...or to refuse to negotiate for the sale or rental of, or otherwise make unavailing or deny, a dwelling to any persons because of race.”

Journalist Nikole Hannah-Jones spoke on National Public Radio about this matter: “I knew housing discrimination was illegal, but that’s about it. So, many things surprised me along the way, but two facts surprised me most. One, it was kind of unbelievable how egregiously little the governments – federal on down – have done to enforce this landmark civil rights law. I discovered governments have largely spent the last 45 years going about their...”
business as if this law didn’t exist, and in fact, were often taking actions that came out on the wrong side of the law. “Two, I was literally taken aback by the fact that this law not only called for an end to housing discrimination, but that it mandated that the federal government wield its considerable powers to take affirmative steps to break down that housing segregation it created.”

Many communities have taken a more progressive approach to affordable housing and have accomplished remarkable success in eliminating discrimination. However, the law of the land is that, intentions notwithstanding, governments, housing, and community leaders must strive to end discrimination and segregation by thoughtfully planning affordable housing so that it works for all of us.

This ruling means that real estate professionals should continue to support and practice fair housing in their daily lives and careers. On a broader level, they should also support the development of affordable housing in such a manner as to eliminate the past social injustices that have plagued this country for far too long. For a more in depth discussion of this topic, please view the following video:

Developing affordable housing is a complex process involving mastering of a myriad of loans, grants, and complicated programs with many qualifications and restrictions. This is not a job for the faint of heart. Knowing the sources of funding and how to put them together to make the deal work is the art of affordable housing. It is beyond the scope of this course to make experts in affordable housing development, but it would benefit everyone in real estate to become aware of the key programs and issues surrounding this industry as outlined in the Urban Land Institute study:

- **The Low-Income Housing Tax Credit (LIHTC)** represents a major source of funding for much of the affordable housing being constructed today. Basically, the process involves an allocation made by the federal government to each state based on population. Usually the state housing finance agency (HFA) administers the program. Each state develops a qualified allocation plan which outlines the priorities and housing goals of the state. Developers submit applications which must meet one of two criteria: either 20 percent of the units must be reserved for households below 50% of AMI, or at least 40% of the units must be reserved for households under 60% of AMI. The developers successful in being awarded allocations receive a tax credit for 9% of qualified costs of development for a 10 year period. Developers generally sell the tax credits (syndication) to investors (usually corporations) for an amount of cash between 85 and 95 cents on the dollar. According to the National Low Income Housing Coalition (NLIHC) the average household developed under this program is at 40% of AMI. Some of the most creative and important housing developments have only been possible because of this collaborative funding structure.

- **Additional Public Incentives.** Developers usually incorporate additional leverage to make the project feasible. They work with local, state, and federal government agencies to obtain additional incentives such as: land grants, tax abatements, and reduced permit and utility connections.

- **Political/Community Considerations.** Developers should know the political climate in which they operate. This includes elected officials and community leaders. Alignment between the needs of the project’s beneficiaries and political and financial realities allows developers to create projects that are both sustainable and responsive to the market's characteristics. Putting together a successful project also includes input from real estate brokers, property managers, housing agency officials, and consultants as well as nearby businesses and homeowners.

- **Successful Market Study.** The following should be incorporated into the project’s market study:
  1. Preliminary Development Proposal should identify the developer, landowner(s) and funding sources, and should identify the number of units, pricing, design, and target market.
  2. Site Characteristics: access, visibility, topography, infrastructure, and zoning must be identified.
  3. Affordable Housing Demand assessed – demographics and employment.
  4. Affordable Housing Supply analysis.
  5. Recommended Development Program – size of target market, mix of market-rate and affordable units, and absorption of sales or leasing.

- **Site Selection.** The site should be selected to maximize economic and social opportunities for residents and to provide access to good schools, safe streets, parks, and public transportation. The mid-20th century was marked by large scale developments located in the most disadvantaged neighborhoods with devastating effects for residents and adjacent neighborhoods. Affordable housing should be made available in central city neighborhoods and suburban locations. Of course, affordable housing developers compete with other developers for sites and are often at a disadvantage based on the heavy baggage they must carry in order to make their development work. In addition, they often face community opposition. In order to promote affordable housing, many communities have opted for inclusionary zoning ordinances that call for the voluntary or mandatory inclusion of “affordable” units in new housing developments. Where a share of new housing construction must be set aside for low and moderate income households, affordable housing developers can partner with market-rate developers to provide it.

- **Diversity.** While we may take for granted that diversity is a hallmark of a healthy and balanced community, many of our communities were more economically diverse 75 years ago than today. Today's typical community is more economically segregated, mainly because of the migration of upper and middle income households to homogenous housing developments in the suburbs. This was largely made possible by the interstate highway system, often leaving poorer families in high-density public housing concentrated (as a matter of government policy, it should be noted) in the poorest urban neighborhoods. Now, revitalization is sweeping the country and much of the existing affordable housing is disappearing due to these changes in neighborhoods through gentrification. In neighborhoods with little affordable housing, the introduction of mixed-income communities can jump-start the process for bringing about diversity, affordability, and balance. People with growing families can move up, seniors can downsize, and
young adults can stay in the neighborhood in which they grew up. Long-term residents who stay active and vested in their community help maintain that sense of community. Mixed-income, mixed-product development mitigates developer risk by appealing to a variety of potential customers. Market rate units can help cross subsidize income restricted units. Achieving the proper mix of market rate, workforce, and low/moderate income housing units is always a hot topic for debate.

- **Design.** It is difficult to determine the market for a well designed, mixed-income, attractive development – specifically rate units from the affordable ones. The first step is to create curb appeal which fosters pride. A proper scale in respect to the existing neighborhood is important to create a connection between the two. Putting “eyes on the street” with window orientation is attractive and can serve as a de facto neighborhood watch system. Address parking, auto circulation, and lighting is attractive and enhances safety. Landscaping can be used aesthetically and can enhance security. Designs without gates and fences can help connect residents within the community and to the surrounding community.

- **Sustainability.** The goal of creating any community is to promote economic vitality, foster environmental integrity, and encourage a sense of community today and for future generations. It should promote health, conserve energy and natural resources, and provide easy access to jobs, schools, and services.
  - Site Selection is the starting point. Infill sites are inherently more sustainable than undeveloped sites. Infrastructure costs are lower, transportation alternatives are available, and it does not use up agricultural or natural lands. The site should connect to trails, open space, parks, streets, and public transit and should think beyond the car, incorporating options for bicycling, ridesharing, accessing trains and buses, and walking
  - Incorporation of **Green Systems** can reduce costs, create healthier living environments, and save non-renewable resources
  - **Building Materials** can be incorporated using recycled construction materials
  - Provisions should be made for future funding and maintenance of key programs and amenities
  - The right mix of uses and incomes is important
  - High standards of **architecture** should not be compromised
  - Education of residents on the subject of maintaining and improving important sustainable features is essential

- **Recent Federal incentives for developing affordable multifamily housing**
  - Effective April, 2016, FHA has reduced the mortgage insurance premium on market rate construction and substantial rehabilitation loans from 0.65% and 0.60% respectively, to 0.25% if the project meets certain energy-efficient standards. These changes are designed to help promote the development of affordable and workforce multifamily communities by increasing loan proceeds and reducing the effective interest rates of FHA loans for these types of properties.

**Examples**

Here are a few innovative and diverse developments to check out:

- **Schaefer Landing, Brooklyn, New York** – 140 affordable rental units and 210 market-rate luxury condominiums.

- **First Ward Place, Charlotte, North Carolina** – 250 units of public housing, 50 units of workforce housing for families under 80% AMI, and 101 market-rate units of both for sale and rental housing. One-third of the for-sale units were reserved for former public housing residents who had improved their financial situation to the point of being able to afford to buy.

- **Benedict Commons, Aspen Colorado** – Provides affordable housing to workers in the extremely high income and costly community.

- **The Townhomes on Capitol Hill, Washington, D.C.** – 134 units of row houses and semidetached homes available to households between 50% and 115% AMI. Designed to integrate seamlessly with the Victorian townhouses emblematic of Capitol Hill.

- High Point Neighborhood Redevelopment, Seattle, Washington – 1,600 units on 120 acres with all new infrastructure, restoration of street and open space connections with surrounding community in historic Seattle neighborhood. Included is a housing cluster built expressly for families with children suffering from asthma. Amenities include community center, small pocket parks, athletic field and forested hillside. Parking clustered next to, under or behind homes to encourage neighbor interaction and children monitoring.

- **1400 on 5th, New York City (Harlem neighborhood)** – 128 unit green condominium development with 85 units reserved for households with incomes between $52,000 and $103,000. Remaining units sold to residents with incomes above $89,000. Utilized were a 24 hour attended lobby, geothermal heat pumps, and West African design elements.

**Chapter Summary**

Here’s a short video summary of this chapter: [http://content.jwplatform.com/players/j8FbQTL-e5esRGA31.html](http://content.jwplatform.com/players/j8FbQTL-e5esRGA31.html)
CHAPTER 3: BECOME AN EXPERT IN AFFORDABLE HOUSING

Chapter 3 Overview

Now it’s time to step into the field and help low and moderate income clients achieve their goal of homeownership by utilizing the tools that are available to the licensee and the programs designed to maximize the buyer’s purchasing power. Learning to navigate the networks will enhance any real estate agent’s career, not to mention help our industry meet the nation’s growing housing needs and goals.

Learning Objectives

Upon completion of this chapter, students will be able to:

- Identify local, state, and federal programs and resources/organizations in the housing industry that are available to low and moderate income buyers.
- Describe how to tap into the local affordable housing network for information and guidance in achieving homeownership for clients.
- Discuss the network of federal, state, and local entities working to provide affordable housing in America.

Housing Industry Resources for Affordable Housing

There are many governmental and private or quasi/governmental agencies at the federal, state, county, and city levels involved in affordable housing. Most have been identified in previous chapters. In this section, we learn to pinpoint the players directly involved in putting together the real estate sales transaction.

Starting at the federal or national level, there are institutions that are well known to all in the real estate industry. Here we need to focus on those institutions that are currently in the business of delivering affordable housing products to the industry and consumers.

Housing Industry Resources: HUD/FHA

The Federal Housing Administration, created in 1934, is the only federal government agency that operates entirely from its self-generated income and costs the taxpayers nothing. The proceeds from the mortgage insurance paid by the homeowners are captured in an account that is used to operate the program entirely. FHA provides huge economic stimulus to the country in the form of home and community development, which trickles down to local communities in the form of jobs, building suppliers, tax bases, schools, and other forms of revenue.

The primary FHA loan product, the 203(b), is the single most important element in the history of affordable housing in America. This loan has helped over 34 million borrowers finance or refinance homes since 1934. FHA currently insures almost 5 million loans. The basic FHA loan is funded by a lending institution such as a mortgage company, bank, savings and loan association, or credit union and insured by FHA. It provides for a minimal down payment of 3.5% and may be used to finance owner occupied one to four unit structures.

There is another FHA loan, the 203(k), which allows buyers to finance up to $35,000 into their mortgage to repair, improve, or upgrade their home. The basic FHA loan is an affordable loan product as it stands, yet it can be leveraged with other sources of funds to provide eligible borrowers with various forms of mortgage assistance, including down payment assistance and closing cost assistance.

Housing Industry Resources: HUD/FHA

Loan limits for FHA are as high as $625,500 in “high cost” areas such as San Francisco, Washington, D.C., New York City, and some parts of Los Angeles. For “low cost” areas the limit is $271,050. Recalculation is annually based on a percentage calculation of the national conforming loan limit. For low cost areas, that means 65% in establishing the FHA floor, where 115% of the median home price is less than 65% of the national conforming loan limit. The ceiling is at 150% of the national conforming limit or where 115% of the median home price exceeds 150% of the conforming loan limit.

Underwriting standards for FHA loans are generally less stringent than for conventional loans and feature the following:

- Income to Debt Ratio – 31% for mortgage payment to gross income and 43% for total debts to income. In approved energy-efficient homes, the ratios may be increased by 2% each.
- Credit – A score of 620 is automatically qualified, however, exceptions are made for certain circumstances.
- Down Payment – 3.5% of purchase price (but with approved forms of mortgage assistance, this may be lowered to $1,000, or in certain programs to $0).
- Mortgage Insurance must be purchased by the homeowner. The insurance provides protection for the lender with up to 78% of the home value in the event of a default. The upfront premium paid at closing is 1.75% of the loan amount. A monthly premium will also be collected in the mortgage payment equal to an amount ranging from 45 to 105 basis points (roughly equivalent to .45% to 1.05% of the unpaid mortgage balance monthly).
Affordable Housing Opportunities for Low-Moderate Income Buyers

**Housing Industry Resources: VA**

The Veterans Administration has guaranteed more than 20 million home loans made by financial institutions since 1944. The government guarantees the lender against loss of principal in the event of default as opposed to the FHA insurance of 78%. The loan may be up to 103.3% of purchase price. This may include the VA funding fee of up to 3.3%.

Unlike FHA loans, the veteran does not make any monthly premium payments. VA underwriting allows up to 41% payment to gross monthly income. VA, like FHA, has loan limits based on area home prices.

**Housing Industry Resources: Conventional Loans**

Conventional loans are not guaranteed nor insured by the federal government and are readily available in all markets. They generally require a down payment of 20%, although with the use of private mortgage insurance (PMI) the down payment may be reduced to as low as 3%. Like FHA, private mortgage carries premiums both upfront and/or monthly. These loans may be originated by private lenders and sold in pools to either the Federal National Mortgage Association (FNMA), referred to as Fannie Mae, or the Federal Home Loan Mortgage Corporation (FHLMC), commonly known as Freddie Mac. These institutions were created by the federal government but are privately run and operated under federal regulations.

Conventional loans may also be utilized in conjunction with leveraged mortgage assistance programs, much like FHA loans. Down payment and closing cost assistance may be incorporated, making these home loans very affordable.

**Housing Industry Resources: HFA’s**

State Housing Finance Authorities (HFA’s), as described earlier, are state chartered agencies authorized to sell tax exempt bonds, the proceeds of which are used to make mortgage loans to income eligible home buyers. Generally, most HFA’s make use of FHA, VA, and Conventional loans as the vehicle utilized for loan origination. These loans may be leveraged as well, and many state agencies are now offering their own sources of down payment and/or closing cost assistance.

**Mortgage Assistance**

Mortgage Assistance – the key to current Affordable Housing programs.

Mortgage Assistance is the addition of funding sources outside of the primary mortgage instrument brought in to lower the cost of ownership or rental for eligible buyers. There are many types of mortgage assistance and multiple sources. Cataloging resources across the nation would be a formidable task, especially since the sources and uses of these funds is continually changing and evolving to meet supply and demand and is tailored to local conditions.

Over the years, there have been many different alternatives employed to meet one end: Get the money from the source to the buyer in a manner in which it will leverage the most buying power. In other words, get the best bang for the buck. Volumes have been written about the pros and cons of the various types of mortgage assistance, and it might be interesting to take a look at what has and has not been successful over time.

Grants – clearly the easiest to deliver is the grant. Many affordable housing programs have incorporated some form of grant funds and continue to do so. The obvious benefit to the buyer is that usually these do not have to be repaid. If they do carry repayment provisions, they tend to be deferred or often forgiven over a period of time. Direct grants to individuals are not particularly attractive for many funding sources such as governments and foundations. They are unwieldy and cumbersome at best and difficult to administer and monitor for compliance. Therefore, most grants, either coming from the public or private sector, are in the form of funding provided to a distributor of mortgage assistance such as a state, county, or city government agency, a non-profit organization to be re-packaged as a grant, or a modified grant to the ultimate low/moderate income buyer.

Typical foundation grant funding is made available for the following endeavors:

- For-sale housing
- Rental housing
- Special needs housing
- Senior housing
- Transitional living facilities
- Emergency/homeless shelters
- Youth housing
- Self-help housing
- Farmworker housing
- Predevelopment funding to non-profit developers
- Capacity building for non-profit housing organizations
HUD grants funds for the following:

- **HOME Investments Partnerships Program**
  - Building, buying, and/or rehabilitating housing for rent or homeownership
  - Direct rental assistance to low-income families

- **Self-Help Home Ownership Opportunity Program (SHOP)**
  - Provides funds for non-profits to purchase home sites for low-income families
  - Develop or improve the infrastructure for sweat equity and volunteer-based homeownership programs

- **National Housing Trust Fund (HTF)** – supports the acquisition, new construction, or reconstruction of rental units for extremely low-income families or families with incomes below the poverty line

Organizations which are at the forefront of providing mortgage assistance are often special non-profits called Community Housing Development Organizations (CHODOs). They are private, non-profit, community based service organizations that provide affordable housing services for the community they serve. At least 15% of HUD HOME funds are guaranteed to go to activities undertaken by CHODOs.

The entities which are eligible and successful at obtaining grants usually package the grant funds in a number of ways for delivery to the population they are earmarked to serve:

- Down payment assistance
- Closing cost and prepaid items assistance
- Temporary or permanent buy downs of interest rates
- Homeownership Counseling

**Repayable Loans** are utilized for mortgage assistance. They are the most sustainable form of assistance in that they replenish themselves through repayment and payoff through sale or refinance so as to make more funds available for continued programs. There are a number of sources for these funds and many different types of organizations that employ them as a vehicle for mortgage assistance. In order to maximize their benefit in loan qualifying for the buyer, mortgage assistance loans may be configured in a number of ways – for example:

- Fixed-rate, fixed-term, fully amortizing
- Fixed-rate and term with payments set below amortization level and balloon payment due at maturity
- Fixed-rate, fixed-term, no amortization or interest accrual until certain date reached (often the maturity date of the primary loan)
- Fixed-rate, no payments, balloon payment due at maturity (this type of loan will often anticipate a future refinance in order to repay the assistance loan)
- Interest only payments, balloon at maturity
- Mixed-rate loan with different rate levels and payments

**The Affordable Housing Network**

Licensees and, ultimately, low/moderate income buyers can only be successful at achieving homeownership if they know where to look to find programs that are available in the community to provide a mortgage vehicle. Also necessary is the needed mortgage assistance in order for the sought after home to be affordable.

While there is a fair amount of advertising and resource material on the internet and in printed form, real estate practitioners, unless they deal with this market on a regular basis, may not be aware of where to go to put the pieces together to enable clients to be successful.

This is especially true for hot and super-heated sellers’ markets. The national lack of inventory has had a profound effect on for-sale affordable housing which, in turn, has affected the affordable rental industry. Both are scrambling to keep neighborhoods intact, diverse, and vibrant.

Fortunately, there are dedicated individuals and organizations which not only make their livelihoods in affordable housing, but for whom it is a passion. In each community the dynamics are different. However, you will find that if you tap into the resources, get to know the individuals in charge of delivering the products that make a difference for low/moderate buyers, and keep the pipeline of funding from national, state, and local governments, they will become an invaluable tool for success in this business. The vast majority of these people are also incredible to work with as their enthusiasm is contagious. You will find yourself meeting one individual from one agency who introduces you to another person from another agency, and you may generate resources that can enhance your deal. By no means is working in the affordable housing world easy. However, it is extremely gratifying and is the reason we all got into real estate – to help people achieve a goal and make a living at the same time. In the next chapter, you will see some of the side economic benefits from aligning yourself with this industry. The accomplished licensee
who traverses the affordable housing world is every bit as knowledgeable about his or her industry and community as any top producing residential or commercial real estate broker.

If **politics** is your focus, this line of work will take you into the day to day workings of local, state, and national governmental agencies, most of which answer, to some degree or another, to elected officials. It doesn’t take a lot of effort to see the connection between politics and housing, especially affordable housing. Regardless of party affiliation, housing is a national priority, and while not always on the radar of the media, the government will continue to be the gatekeeper to the stream of funds necessary to try to keep housing affordable in this country. Some elected officials are more intimately involved in housing affairs. Those would be good contacts, especially key staffers who work day to day with government agencies and have a vested interest in advancing the needs of their constituents.

### The Affordable Housing Network - National Level

Governmental involvement starts at the **National Level**, but you don’t have to work or live in Washington to get involved with key federal agencies. The most important by far is the U.S. Department of Housing and Urban Development (**HUD**). HUD is the backbone of the affordable housing industry. If you work in a major city, there may very well be a regional office which wields considerable power in the allocation of resources. The current Secretary of HUD is **Julian Castro**. Mr. Castro was appointed by President Obama to his post on July 28, 2014 and oversees the Department’s 8000 employees and a budget of $46 billion. Mr. Obama said: “Julian is a proven leader, a champion for safe, affordable housing and strong, sustainable neighborhoods.” Mr. Castro, a rising star in the Democratic Party, was previously mayor of San Antonio and was on Time Magazine’s list of 40 under 40. He is a graduate of Stanford and Harvard.

The Regional Administrator is a political appointee, but they all have seasoned staffs to oversee and administer their programs. HUD has regional offices in the following cities:

- Boston
- New York
- Philadelphia
- Atlanta
- Chicago
- Fort Worth
- Kansas City
- Denver
- San Francisco
- Seattle

### The Affordable Housing Network - National Level

In addition, HUD maintains field offices in most major cities not already covered by a Regional office. Here is a link to all of HUD's regional and field offices:


Again, HUD is the gateway to most sources of affordable housing funding and is a resource that must be, at the very least, acknowledged and understood.

Other federal organizations such as **Fannie Mae** and **Freddie Mac** have their national headquarters in Washington, D.C. and have regional offices in the following cities:

- Dallas – FNMA and FHLMC
- Chicago – FNMA and FHLMC
- Los Angeles – FNMA and FHLMC
- Atlanta – FNMA and FHLMC
- New York City – FHLMC
- Philadelphia – FNMA

HUD Homes is a national source of foreclosed FHA properties, operates a searchable national website for locating and bidding, and also lists homes in local MLS services. The link to the HUD Homes Store is:

[https://www.hudhomestore.com/Home/Index.aspx](https://www.hudhomestore.com/Home/Index.aspx)
Fannie and Freddie work largely through their network of lenders who sell loans to them. Information on affordable housing programs can usually be obtained from your local lender. Like HUD, Fannie Mae maintains a national database of foreclosed homes and offers online bidding through its site:

https://www.homesteps.com/

Freddie Mac’s site is:

https://www.homepath.com/

Both of these organizations offer affordable housing programs from time to time. A good lender will be aware of their availability to your clients.

The Affordable Housing Network - State Level

Each state has its version of a housing administration to carry out state approved programs and often to funnel federal housing funds down to the local level. These differ from the State Housing Finance Agencies which have been described earlier. For example, in the state of Colorado, the state government operates a division called Local Affairs, under which the Division of Housing (DOH) was created by statute in 1970 to improve the access of all Coloradans to decent, affordable housing. Working with the State Housing Board, the Division:

- Provides state and federal funding to private housing developers, housing authorities, and local governments to increase the inventory of affordable housing.
- Offers Housing Choice Voucher rental assistance statewide through local housing authorities and non-profit service organizations.
- Certifies all factory/manufactured structures built in or shipped to Colorado and approves multifamily construction in counties with no construction codes.

If you work in or near your state capitol, it would behoove you to become acquainted with the staff of the state agency as its personnel control vital portals to funding and programs.

Again, the State Housing Finance Agencies (HFAs) have been listed earlier and are another vital source of for-sale financing and mortgage assistance programs. The HFAs work through participating lending institutions. You should make yourself aware of all of their programs and hook up with a lender that is proficient in working with their program restrictions and peculiarities.

The Affordable Housing Network - Local Level

The majority of your contacts will be made on a local level. Starting with the governmental entities, depending on the size and nature of your community, there will be county, and in many cases, city Public Housing Authorities (PHA) in place. PHAs were created to own and operate public housing and continue that role today. However, most have expanded their roles in the communities they serve to include different forms of home ownership for low/moderate households. It is through these organizations that Section 8 vouchers are controlled. Section 8 vouchers are used by individuals and families to pay a portion of the fair market rent to landlords participating in the program by making their properties available to this low-income population, by agreeing to maintain a minimum housing quality standard, and by subjecting their properties to annual compliance inspections.

These are important to for-sale housing in that because in many jurisdictions Section 8 vouchers can be used to subsidize a new homebuyer’s mortgage payments much the same way that they subsidize the rent payment. These programs are usually a combination of loan and mortgage assistance products leveraged together with the federal contribution of the subsidy to make purchase of homes affordable to successful Section 8 rental households. These households have been approved to participate based on their credit strength, rental history, and ability to contribute to a minimal down payment. Housing Authorities are often a source for affordable housing itself. Many larger PHAs have taken on the role of developer in creating new or rehabilitated housing projects for homeownership, not necessarily restricted to their current populations of public housing or Section 8 residents. These may be mixed use or mixed populations and may serve a combination of market rate retail, office, and residential uses. Again, the staffs of these agencies work closely in conjunction with national and other state and local entities. As key players in the affordable housing network, they are valuable resources.

The Affordable Housing Network - Local Level

We have only touched on what is probably the most important driving force at the local level for affordable housing: the Private Non-profit Corporation, often referred to as community development corporations (CDC). Some of these organizations have achieved the status of CHODOs (previously introduced). Most started modestly as neighborhood-based organizations created as a means to achieve a local goal such as to clean up a neighborhood, eliminate graffiti, start a community garden, or provide a lending library. Often, a local church was the spawning ground for these organizations. Through maturation in the community and with success at achieving local neighborhood goals, these organizations have become the pillars of the actual mechanics of creating or maintaining affordable housing across the country. There are also national and regional non-profits generally created to help under-served segments of the population such as the needy, elderly, or others not adequately served by the private housing market. Approximately one-third of the housing stock utilized by these “social housing sectors” has been developed by non-profit developers.

Capitalization has always been the major struggle for non-profits in developing affordable housing for they lack the resources private developers have. With the costs of land, architecture, engineering, site control, and feasibility analysis soaring, non-profit developers have turned to national intermediaries specifically formed to provide capital for non-profits such as the Local Initiatives Support Coalition (LISC), the Enterprise Foundation, Neighborhood Reinvestment Corporation (NRC) and the Housing Assistance Council (HAC). These organizations help non-profits access tax credits,
corporate equity investment, secondary mortgage markets, and lender commitments. They also train non-profits in real estate development, finance, community organization, and social service provision. In addition, they help non-profits form partnerships with each other and public and private parties. As you can see, collaboration is the key to making projects come together.

**Financing** comes together from federal, state, and local governments, private entities, foundation grants, tax credit syndication, and tax concessions. By teaming up with PHAs, non-profits may also get a set aside of project-based Section 8 vouchers, providing the stability of the income stream and helping make deals affordable.

The Community Development Block Grant (CDBG) program allows states and municipalities to budget funds based on a mandatory plan which outlines the community’s housing needs. The majority (70%) of CDBG funds are allocated to projects benefitting low and moderate-income people (under 80% AMI). The remainder is used to prevent or eliminate blight. CDBG funds may be accessed by non-profits when their development is part of neighborhood revitalization, community economic development, or energy conservation.

**HOME** funds, when used for homeownership development, carry a requirement that the housing created or rehabilitated continues to be affordable for between 5 and 15 years. That is often accomplished by a clause in a junior mortgage which is part of the mortgage assistance package. This clause requires that the HOME funds advanced for assistance be repaid. However, if the home does not remain affordable, the funds are considered a grant to the homeowner.

Tax-exempt bonds are available exclusively to non-profits to assist in the development of affordable rental housing for low/moderate income persons.

Another vehicle for assisting non-profit development is the Housing Trust Fund (HTF). These may be national, state, county, or municipal, are created specifically for the provision of affordable housing to low and moderate-income households, and are based on revenues collected. Targeted are households below 80% AML. Projects must remain affordable for between 5 and 30 years.

Since programs come and go based on economic conditions, needs, and the political climate, it is virtually impossible to compile a comprehensive catalogue of affordable housing programs that will remain constant over a period of years. As has been shown in this chapter, the key to success in this field is the ability to learn the playing field and establish a connection with a network of players. Flexibility and perseverance are required in order to be successful.

Now that we have defined the ever changing world of affordable housing, we will, in the next chapter, look at the nuts and bolts of actually helping low/moderate people buy homes.

### Case Studies

Let’s look at three innovative developments and see how they were imagined, created, funded and how they impacted their communities.

**Boulder, Colorado: Infill Workforce Housing (Yarmouth Way)**

Boulder is a very desirable place to live and work, and its housing is some of the most expensive in the state ($530,000 – median price of homes). Only 41% of Boulder’s workforce lives in the city. Boulder’s city and county governments focus on providing affordable housing for low and moderate income households as part of their comprehensive plan. Permanently affordable housing in Boulder has increased from 3.6% in 2000 to 7.2% in 2014 and has the goal of reaching and sustaining 10%. Unfortunately ¾ of these units are one or two bedroom units and less than 10% of the affordable units are detached homes. The mandate is that developments meet the city’s high design standards and are developed with minimal public subsidy.

A non-profit developer, Thistle Communities, teamed with for-profit Allison Management to acquire a vacant parcel which had been approved for a community services building. The design of Yarmouth Way incorporates different properties of varying size, including attached townhomes, duplexes, and single-family detached homes. There are 2, 3, and 4 bedroom units with square footages from 1000 to 2400. They are designed around a “woonerf,” an arbored alley that promotes pedestrian and bicycle traffic over automobile traffic. The project features shallow setbacks and street-facing porches. Subsidy is minimized by the inclusion of the sale of market-rate houses priced from $275,000 to $450,000, with Deed-Restricted units priced between $208,000 and $237,300. Under Boulder’s Inclusionary Housing Ordinance, developers must make 20% of their units affordable. In Yarmouth Way, they built 40% (or 10 units) affordable and thus received a $100,000 bonus per unit from the city by trading another developer the extra 5 units that they would have had to produce in their project. They also received an interest-free loan for predevelopment costs from NeighborWorks America. The average development cost per unit was $253,000, with total costs just over $6.3 million. This project was awarded the Urban land Institute’s 2013 Jack Kemp Workforce Housing Models of Excellence Award.

To view photos and more information, click here:

[http://www.huduser.org/portal/casestudies/study_01272015_1.html](http://www.huduser.org/portal/casestudies/study_01272015_1.html)

**Atlanta, Georgia: Affordable Homeownership on the BeltLine (The Lofts at Reynoldstown Crossing)**

For the past 10 years, Atlanta has been undertaking a massive urban redevelopment project known as the BeltLine. They are transforming an abandoned rail corridor into a system of parks, trails, and public transit spanning 22 miles and 45 neighborhoods. Atlanta BeltLine Inc. (ABI) is the entity created to implement the project and to create and preserve affordable housing along the BeltLine. A partially completed luxury condo building sat vacant for 4 years after the 2008 fiasco. ABI acquired the site, completed improvements in 9 months, and sold out by the spring of 2012. While maintaining the upscale features such as granite countertops, stainless appliances, floor to ceiling windows, and a pool and fitness center, the units were offered to households earning less than the area median income ($68,000). Drawings were held and a set of three units were earmarked for police and teachers. These will remain affordable in perpetuity. The units were sold for an average price of $150,000, with tax increment funding a per unit subsidy of $22,000. The Atlanta BeltLine Affordable Housing Trust Fund provided each homeowner with a 0% interest deferred-payment

**Affordable Housing Opportunities for Low-Moderate Income Buyers**

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and a 2nd mortgage of $64,000, making the payments on the home approximately $1000 per month. Sale of the unit within 15 years triggers a repayment of the 2nd and ABI holds and allows for a first right of refusal on all units.

Of the 28,000 housing units planned along the BeltLine, 20% will be affordable to low and moderate income households. To help fund the affordable units, 15% of the revenues of the tax increment financing are dedicated to the Trust Fund. Once again, a major city has targeted mixed-income communities and addresses disparities in employment and housing.

To see photos of the project and a map of the BeltLine, click here:
http://www.huduser.org/portal/casestudies/study_05062015_1.html

Sacramento, California: Smart Growth in Historic Alkali Flat (La Valentina)

In 2009, Sacramento changed its course of development from a suburban style to a smart growth infill concept. On the northern edge of downtown in one of Sacramento’s oldest neighborhoods sat 1.23 acres of brownfields that had been vacant for more than 20 years after several failed attempts at redevelopment. The Alkali Flat/La Valentina light rail station is located there. The developer, Domus Development, teamed up with the Sacramento Housing and Redevelopment Agency to build a mixed-use development that included 80 units of affordable housing along with street-level commercial space just steps from mass transit and a short distance from downtown. 62 of the units are located in the La Valentina Station, which consists of two 4-story buildings connected by elevated walkways bridging an alley. Distinctive vertical and horizontal façade paneling is broken up by recessed balconies, providing private outdoor space for each unit. There are studios and 1, 2, and 3 bedrooms apartments from 400 square feet up to 1,000 square feet. La Valentina North is an 18 unit townhome incorporating advanced green building strategies and techniques.

The site was heavily contaminated by prior auto repair shops. The damage required significant environmental remediation, costing $1.5 million funded by grants from the California Recycle Underutilized Sites Remediation Program and the Housing and Redevelopment Agency.

Funding sources for this $24 million project came from a vast consortium of sources: low-income housing tax credit equity, HOME, tax increment financing, a conventional loan, land donation, CDBG funding, and other sources.

Other developments are now planned for the Alkali Flat neighborhood, a once-forgotten blighted part of this beautiful city.

Click here to see photos:
http://www.huduser.org/portal/casestudies/study_03102015_1.html

Now that we have defined the ever-changing world of affordable housing, we will, in the next chapter, look at the nuts and bolts of helping low/moderate people buy homes.

Chapter Summary

We will now conclude this chapter with a short video summary: http://content.jwplatform.com/players/csK69CJS-iesRGA3I.html

CHAPTER 4: WORKING WITH LOW-MODERATE INCOME BUYERS (PUTTING IT ALL TOGETHER)

Chapter 4 Overview

We now have a working knowledge of the Affordable Housing machine, which is composed of complex links between federal, state, and local agencies, and the programs needed to allow the industry to meet changing social and economic challenges facing affordable housing.

Learning Objectives

Upon completion of this chapter, students will be able to:

- Explain the invaluable contribution of Home Buyer Counseling and how to use it to your buyer’s advantage.
- Compare and contrast the eligibility and qualification requirements of programs available to your buyer in order to help him/her select the right lender to accomplish the goal.
- Effectively prospect for homes with the best chance of success for the buyer.
- List the team players who are instrumental in helping low-to-moderate income first-time buyers acquire their homes.
Home Buyer Counseling

If you are already working with low and moderate income buyers, we hope this course has given you a few new insights into the process. For those of you who would like to work in this market but don’t know any first-time buyers in this income range, consider going to a local Homebuyer Education class. Homebuyer Education is a requirement for virtually every low-moderate income program for homeowners. These classes provide a general overview of the entire home buying/mortgage process. They include information about selecting a property, working with a real estate professional, finding and choosing a lender, and distinguishing the different types of mortgage products, mortgage qualifications, and assistance programs. They also cover what to expect after closing. Most classes are free, however, a growing number of online courses are being offered for a modest fee. The one-on-one interaction with people in similar circumstances is preferable for most buyers. Even if they do not end up buying, most report a positive experience and feel more empowered in the future to enter the arena of homeownership.

Where can you find these classes? Start with your state HFAs. Most will either sponsor or promote homebuyer counseling as it is a requirement of most of their homeownership programs. Another great source will be local CHODOs and NDCs. These organizations are often in the business of providing homebuyer counseling as an adjunct to their homeownership programs and as a source of revenue as they are paid by various government agencies to provide homebuyer education. Local PHAs also have homeownership components to their programs and offer homebuyer education classes. Some may be exclusively in the business of providing homebuyer education and will have extensive products and trained professional staff. Lenders participating in low-moderate income lending programs will be glad to make a referral. Contact the instructor if you wish and see if you can help sponsor an individual class. That might be as simple as bringing pizza or other refreshments. A significant benefit will be that you will often be given a brief introduction and an opportunity to leave or even present your marketing materials. Many first time buyers do not know any realtors and one who takes the time and effort to attend, and even sponsor, their training will jump to the front of the line when it comes to actually choosing an agent. While you may lack the experience of a seasoned veteran in this field, enthusiasm and willingness to work hard for someone won’t be overlooked.

Of course not all low and moderate-income people will be able to qualify for a loan. Many will have credit issues, employment stability issues, or other impediments to buying. The benefit to working with the right homebuyer counseling program is that the goal is to achieve homeownership. The staff is trained to work with individuals and families in clearing up these issues.

Not everyone will ultimately qualify and be able to purchase but all who participate sincerely will be able to improve their financial situation and therefore their lives. It may take weeks, months, or years to groom someone for successful homeownership, but a good counseling agency will eagerly take on the challenge and relish in the gains made by their clients.

Find a Program or Find a Lender?

So now you have a buyer, or maybe two or three. We all know the first step is to get them prequalified for a loan. When it comes to affordable housing, not all lenders are created equal. If you are working with a low-moderate income first time homebuyer, it is important that they pick the right lender who will know which program is best for their situation and will be able to get them through the process. As we have learned, programs come and go, morph and change. The constant however is that there will always be a gap in affordability between higher income levels and the lower levels. Down payment and closing costs will continue to be an impediment to purchase for many otherwise creditworthy purchasers. Only an experienced, competent, and caring lender will be able to, in many cases, get that marginal buyer over the fence and on the path to homeownership. It is true that many lending institutions now offer first-time homebuyer loan programs, many of which incorporate mortgage assistance. This is a wonderful response of the lending industry, particularly since many in that industry brought this business to its knees in the financial debacle of the late 2000’s.

We will share examples of some of these lender sponsored programs here, but with a caveat: the cost of the assistance in these programs is rarely a grant as it is with government or non-profit sponsored programs. The lender offering the program is well-intentioned and honorable in making loan funds available under these circumstances, but is not generally undertaking this venture as a purely civic gesture. They expect to profit from the program, and that is their duty to owners and shareholders. Programs may be offered to comply with the Community Reinvestment Act (CRA). The extra costs of mortgage assistance are likely to come from a premium being charged in the interest rate. Further, there may be geographic restrictions mandating that the home being purchased must be located in designated low and moderate-income census tracts. It is therefore important to compare programs being offered by private lenders and community based organizations. You should also make a careful analysis of the costs and benefits of each.

The following is a recent example of a lender sponsored program for affordable housing purchases:

BBVA Compass pledged $11 billion in lending, investments, and services toward supporting low and moderate-income individuals and neighborhoods. Included is a free, online homebuyer education course and up to $4,500 in mortgage assistance funds that do not have to be repaid. No private mortgage insurance is required. Loans are fixed rate and offer terms of 10 to 30 years. Low/moderate census tract location of property is a requirement. The down payment may be as low as $500.

Wells Fargo HomeLift, NeighborhoodLift, and CityLift Programs are available in a number of cities (24) and provide up to $15,000 to $30,000 in assistance in conjunction with Neighborworks America. Under this program, buyers who earn less than 120% of AMI are eligible for these 5 year loan/grants. The buyer must stay in the home for 5 years and then the loan is forgiven. This is a departure from the usual 80% AMI restriction and is also open to non-first time homebuyers. As with other programs, Homebuyer Education classes are a requirement. If you do not know a great community based lender, you can get help from a number of reliable resources:

- State HFAs will publish a list of participating lenders
- Non-profit CHODOs and NDCs will gladly refer you to lenders proficient in their programs and may have links on their websites
• Homebuyer education providers – lenders involved in affordable housing often participate in providing homebuyer education classes

It's always about forming a team when working with low and moderate income buyers. The lender is your key team member (other than you of course), but also try to enlist other helpful team players:

• Inspectors are used in virtually every transaction, however, special care should be taken when recommending an inspector to a low-moderate first time homebuyer. The inspector should be aware of what issues will cause costly future repairs that may be unaffordable to financially compromised households so that those issues can be dealt with effectively with a seller. Also, the home inspector can be of immense value to a novice homeowner in explaining basic home operations and maintenance. They can point out key safety components such as electrical panel labeling, sewer maintenance, or other waste disposal tips and energy conservation features of home operations.

• Title Companies may offer discounts when a non-profit or government agency is involved, usually as the seller, but may extend these discounts to buyers in the form of discounted lender policy rates and discounts on endorsements.

• Hazard Insurance Companies must be able to write affordable homeowners policies or the transaction may fail due to unaffordable premiums for home buyers. Often, insurance companies will use a square footage estimator to calculate replacement costs that will result in higher premiums for homes that are located in lower cost neighborhoods. Other companies will shy away from certain geographic areas due to higher historical losses. A good licensee will be able to direct the home buyer to a few agents that specialize in working with the needs of lower income customers and homes.

The real estate sale and purchase transaction is fraught with peril these days. There are many roadblocks and pitfalls that can terminate the transaction. When the buyer has limited resources, it is critical that the right decisions be made at the right time whenever possible. The probability of success should be maximized even more as the buyer may get only one chance to buy in a market with increasing prices and fewer affordable homes to choose from.

You have a buyer who has been qualified for an eligible affordable homeownership program with a competent, qualified lender well versed in affordable housing, who has completed their home buyer education requirements, and is pre-approved for financing. The job is almost done except for the most important component: the HOME. You have spent weeks getting to this point and now the hard work really starts, especially in markets experiencing rapid price increases and appallingly low inventory.

As a specialist in low and moderate income housing for over 30 years, this author must point out that, statistics notwithstanding, the challenge in helping buyers at the lowest end of the income spectrum who might otherwise be able to buy a home is more daunting now than it has been previously.

With an improving economy, rising prices, and low inventory, many markets suffer a deplorable lack of affordable housing. While there are seemingly infinite ways for statisticians to prove just about anything, some commonly accepted sources for affordability data are summarized in these links:


You don't need a chart to know whether your community is affordable. You are the real expert. You look at the supply, demand, and prices on a daily basis. Your success is measured by closed transactions. There are a finite number of homes affordable to your client in any given market and there will be competition for each one. It is our job to carefully inventory each prospective home and put our client in the best position possible to have a chance at the one(s) they want.

First time homebuyers that have been through a lengthy process of homeownership counseling, credit repair, or other seasoning necessary to be approvable are likely eager to buy and may be inclined to purchase one of the first homes they see. This is perfectly understandable. The lack of inventory and competition for affordable homes tends to aggravate the sense of urgency associated with home buying even more. Competition is not just coming from other buyers, but from investors as well. Many of these investors are armed with cash, seeking that hot investment in rental housing with soaring rental rates in numbers markets.

First-time affordable home buyers typically share many of the following characteristics:

• Disposable income limited to wages or other fixed income

• Limited liquid assets may be substantially earmarked for down payment and improvements, moving costs, furnishings, etc.

• Utilize high ratio loan-to-value mortgage instruments

• Geographical limitations based on commuting constraints

Needless to say, these may all be negatives when it comes to competing for homes. In hot seller markets marked by weak inventory, it is not at all uncommon for homes hitting the market to be bombarded with offers. In fact, it is becoming somewhat customary for listing brokers to announce an open period of time for showings, followed by a cutoff date and time for offers to be submitted and a review and decision period for the seller. There may be multiple offers, some submitted sight unseen, received and evaluated for the maximum benefit to the seller. Offers exceeding the asking price have become the norm for homes priced within a reasonable distance from their "market" value. It goes against the grain for anyone to have to pay more for something than is asked. This is particularly true for a first-time buyer, with limited means, seeking that dream home that may be a starter but may become the forever home.
Affordable Housing Opportunities for Low-Moderate Income Buyers

Often, it will take at least one (and often several) unsuccessful offers for a client to accept the fact that their buying power is reduced to a level below that which they anticipated. There may be buyers who do not look online for homes when they make the decision to buy. However, they are certainly the exception to the rule as most buyers bombard us with homes they have found, sometimes even close to the price range they say they want to stay within. The point is that buyers know what is out there. Sometimes our job is to scale down those expectations. This task is not easy for us or them, but oftentimes a reality of the market needs to be established.

The difference between a $200,000 home and a $190,000 home is usually more significant than the difference between a $500,000 and a $490,000 home. This can mean the difference between 2 and 3 bedrooms, 2 or 1 bathrooms, a one car vs. a two car garage, and so on. These can be major setbacks for a family that has a valid need for the home they think they can buy. Of course, the other concession that sometimes must be made is in the condition of the property. Settling for a fixer upper is usually not a good option for the low-moderate income homebuyer. Not only can it be a huge financial drain when things go wrong, but the lender, FHA, VA, and often the mortgage assistance provider will not permit a purchase where inspection items seem significant. More affluent buyers may make a decision to pay significantly more than is asked for a home and even include an escalation clause in the contract, waive their inspection contingency, or waive the appraisal contingency. None of these strategies are good for the low-moderate income buyer for obvious reasons.

So with all of these conditions confronting us, what can we do as professionals to help the low-moderate, usually first-time buyer be successful against such formidable competition? One thing most sellers want, according to studies, is to know that their home, perhaps their first dream home, will go to someone who will take care of it and treat it as well as they did. There is a natural inclination to favor the underdog, and while that may not overcome overwhelming financial considerations, sellers will look favorably on the affordable housing buyer if the offer package communicates effectively and accurately many of the following factors:

- The buyer has completed a home buyer education course, is knowledgeable about home maintenance and upkeep, and educated in the home buying process.
- The buyer has been thoroughly pre-qualified or pre-approved by an experienced lender whose track record at closing deals is exceptional. A great lender will not only write the standard pre-qual letter, but will preemptively contact the listing broker to explain how rigorously this buyer has been screened and prepared for the transaction.
- The buyer wants and deserves this home. More often than not you may think, a heartfelt, sincere, and honest letter from the buyer to the seller expressing their desire to have what the seller has lovingly taken care of and explaining their circumstances – overcoming obstacles to homeownership through hard work and perseverance, wanting their children to attend schools in the district, proximity to family, growing up in this neighborhood or whatever the case may be – will touch a chord with the seller and give this buyer a psychological edge. Encourage your buyers, whatever the price range, to tell their story – if often works! However, in some of the hottest areas with multiple offers the rule, some cynical Sellers have instructed their listing brokers to advertise in MLS that "no personal letters are welcomed".

Getting Involved and Enhancing Your Career in Real Estate

Affordable Housing is not just helping low-moderate income buyers purchase a first home. It can define a career in real estate and provide opportunities for diverse and rewarding relationships with very interesting people and organizations. By paying your dues in the trenches and getting to know the people and organizations involved in the affordable housing environment, doors will open to new business opportunities if you are so inclined.

You will find, if you look deep enough into the web of programs and entities called affordable housing, that in most communities, it is more than jobs and titles.

There are people who choose to spend their careers in service of others, share common values, and form close relationships. There are many formal and loose knit trade associations in affordable housing, some at the national level, others at a state or local level. However, the most common and often rewarding are the informal relationships which can span a career and a lifetime.

National Organizations

- **National Low Income Housing Coalition** – goal is achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes.
- **Neighborhood Assistance Corporation of America (NACA)** – goal is to build healthy neighborhoods nationwide through affordable and responsible homeownership.
- **Habitat for Humanity** – an International faith-based organization employing self-help partnerships between participant owners and the communities in which they operate. This hugely successful and visible entity has provided 4 million new homes and 800,000 rehabilitated homes for low and moderate income families. Local chapters exist in most metropolitan areas.
- **NeighborWorks America** – a congressionally chartered non-profit that supports community development through grants and technical assistance to CHODOs.
- **Volunteers of America** – is a provider of housing for low and moderate income people, creating housing for homeless, families with children, the elderly, the disabled, and veterans.
State and Local Organizations

State and Local Organizations – exist in every community and offer real estate professionals opportunities to volunteer their time and expertise by serving in numerous capacities, from board members to consultants to volunteers. Many realtors have chosen a career path aligning themselves with the Affordable Housing community and have found that they have become a part of that community themselves both professionally and personally.

There are many ways to participate in affordable housing as a real estate licensee. Non-profit developers buy and sell real estate on a regular basis. They usually choose to be represented by brokers who share their philosophy and community goals. Successful, non-profit developers acquire land, multifamily, single family, and mixed-use buildings to develop as affordable housing. Needless to say, being the broker for these organizations can provide substantial revenue for the brokers representing them. Again, these relationships cannot be bought; they must be earned through a genuine sharing of goals and ideals. This is not a “fake it till you make it” business. The individuals running successful non-profits are professional, well-trained, and educated people. If you do not share their goals and ideals, that’s okay. You can still do business together. However, it is so much more rewarding to both parties if camaraderie exists between you.

The affordable housing community tends to be tight knit. You may find that individuals often shift jobs within the non-profit and government sectors and that just about everyone knows one another. Becoming a compatriot with one organization may lead to introductions to others within the industry and opportunities to create additional professional and personal connections.

Non-Profit Organizations

Smaller, less formal non-profit organizations involved in special areas of affordable housing need real estate expertise and representation as well. Examples of these types of organizations may include the following:

- **Special Housing Needs** – people that share common needs. For example, acquiring and/or providing affordable housing for developmentally disabled people, often family members, in a safe and secure environment with support for their special needs. They may need your representation to acquire properties but may need you more as a real estate expert and consultant to possibly join their board or advisory board as a volunteer. Who do you think they will use for future real estate acquisitions and sales?

- **Housing Authorities** – buy and sell real estate as a regular part of their business operations. Large city authorities may even employ house brokers or have established brokerage relationships. Smaller authorities, often with volunteer boards, will have the mission to develop affordable housing within their communities and will therefore need a broker to help them achieve their goals. By becoming a partner with these organizations, you can offer your skills and advice on property values and acquisition costs. In addition, you can introduce the authority to government agencies who provide development funding, state HFAs who can provide permanent financing for income eligible buyers, lenders willing to provide mortgage origination for the programs, and mortgage assistance providers who can enhance the affordability of their products.

- **Supportive Housing** – many states now offer highly leveraged home ownership programs for people with disabilities and families with children with disabilities. Some of these programs involve the conversion of a rental Section 8 voucher to a mortgage subsidy, usually involving the state HFA and the provision of additional mortgage assistance entities. Real estate licensees who are willing to work with this special population are hard to find, especially in markets where more lucrative prospects are available. These buyers tend to be limited in income to Social Security and possibly part-time earned income with supportive commercial organizations. Their housing needs may be extremely difficult to achieve, especially in markets with prices moving away from their level of affordability. In Colorado, the Colorado Housing Finance Authority provides primary mortgage funding for this program and limits participation of originating lenders to those who have demonstrated an ability to work with highly leveraged programs. These lenders usually recommend real estate brokers who they work with on other affordable housing programs to represent the purchasers. Volunteering yourself to work with programs like this will align you with other participants in the affordable housing community and quite possibly lead to other opportunities.

- **Community Lending CHODOs** – operate in some communities to provide mortgage assistance to low and moderate income home buyers. These organizations operate with the help of the real estate, lending and government support in the form of advisory or operating boards. Participation in forming policies, recruiting funding sources, and marketing loan products is a meaningful way for a real estate licensee to participate and generate network contacts within this wonderful industry.

Commercial Real Estate Opportunities in Affordable Housing

While this is a course primarily designed for residential real estate licensees, it is worth noting that substantial opportunities exist for a broker with commercial, multi-family, land, and other expertise in the affordable housing industry. Even if you lack the experience needed to successfully negotiate and close a complicated commercial transaction, a referral to a competent commercial broker could be a valuable source of revenue. For those with commercial know-how, there are great opportunities to serve the affordable housing community. Again, it would be helpful to honestly share common goals and ideals with the participants as you will be working with government, non-profit, foundations and other people making their living by helping to provide affordable housing to low and moderate income households. Brokerage is a vital component of affordable housing development for the acquisition, development, and delivery to the ultimate consumer. Competence is needed in many real estate related fields:

- Land Usage and Development
- Planning and Community Development
- Zoning and Building Codes
Volunteering and Giving Back

Working in the real estate profession allows you to be a part of a vital component of our society. We get to meet some wonderful people and perform a valuable service. Working with people in the affordable housing industry is a special gift, as they are some of the most dedicated, competent, and caring people you will encounter in your career. They are, of course, compensated for their service.

However, you will find that most are not in it for the money. They chose their career path because they identified a need that is unfulfilled or underserved. Affordable housing is a moving target rather than a fully accomplishable goal. Too many people are living on the edge of hopelessness, and sometimes homelessness. There is always more to be done than there are resources to accomplish it. We pride ourselves on self-reliance but also take great pride in being a society that tries to close the gaps and protect the most defenseless among us.

Anyone in the non-profit sector will tell you that the backbone of most of their organizations is their volunteer base. Funding will never complete the cycle of needs vs. assets. While we can certainly help these organizations professionally by providing our real estate services for compensation, we are much more valuable if we also make a personal commitment to the mission of our clients.

There is a vast need for all kinds of services, from ladling soup at the homeless shelter to serving as an executive board member for a sophisticated non-profit housing development organization. Both are equal contributors and can take great pride in their commitments. For a novice in this field, volunteering can give you visibility that you can’t buy with professional promotional materials. The people you associate yourself with in a common goal may not all become fast friends for life but will appreciate a genuine commitment to serving others and will feel a natural camaraderie with their fellow volunteers. Isn’t that a better introduction than a cold call?

Another benefit of volunteering is developing or sharpening professional skills. For example, serving as a treasurer for a volunteer board is performing a vital service if that organization does not have professional accounting or staff to oversee and audit key financial transactions. Volunteering with an organization like Habitat for Humanity will expose you to construction skills that will always be useful.

Perhaps the biggest need of non-profits is for continual fundraising. While many larger and older non-profits are somewhat self-sustaining, the public and non-profit housing sectors are always at the mercy of politics and the economy. Program funding comes and goes and is often very competitive. Grant writing is an art and also a curse, as it takes a lot of time and research and takes away from the business of actually doing business. Any assistance you can provide to these organizations by helping with fundraisers (a never ending task it seems) or calling on business or personal associates to help support a cause is crucial to the survival of many small community or special needs-based organizations. Again, the contacts you make while serving in this capacity may serve you professionally as well.

Lastly, serving others, regardless of whether or not it is a housing-related issue or simply a cause you believe in, will help you to see the world in a better light. We get so wrapped up in daily crisis management that it is very easy to overlook the real plights that many suffer from. Unemployment and homelessness are a lot tougher to deal with than a needy or whiny client, a glitch in contract software, or an open house that nobody comes to.

Chapter Summary