

Strategies to create and sustain
**AFFORDABLE
HOUSING**

Safety & Well-Being Committee

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1August 18, 2015



DENVER
OFFICE OF ECONOMIC
DEVELOPMENT

Preservation Ordinance Amendments

RAHLF Operating Agreement

MMA+ Amendment

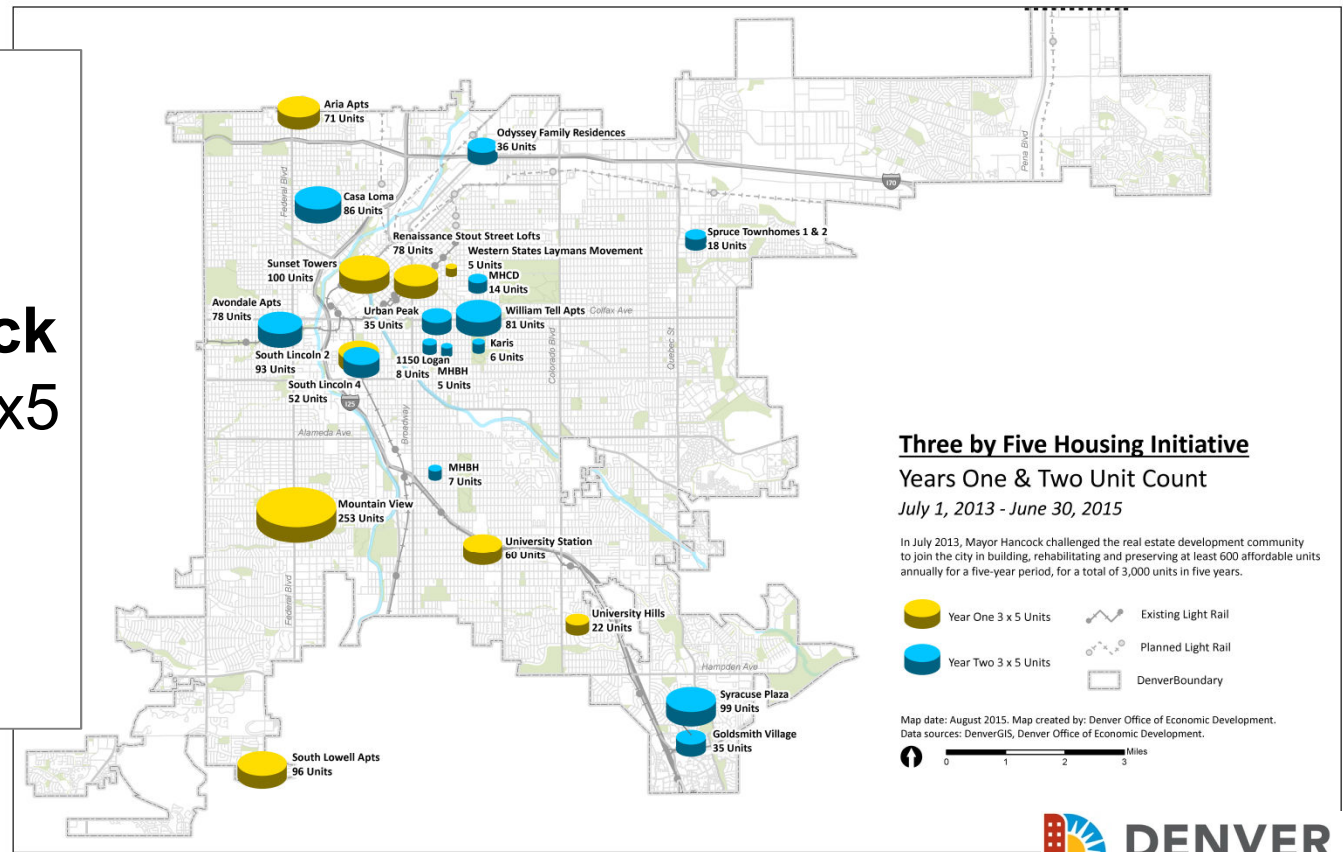
Preservation Ordinance

Why Is Affordable Housing Preservation Critical?

In 2013, Mayor Hancock announced the **3x5 Initiative**:
3,000 affordable housing units in 5 years
 (net new, reha

OED has ramped up investments and is **on track** to meet the 3x5 goal

BUT...



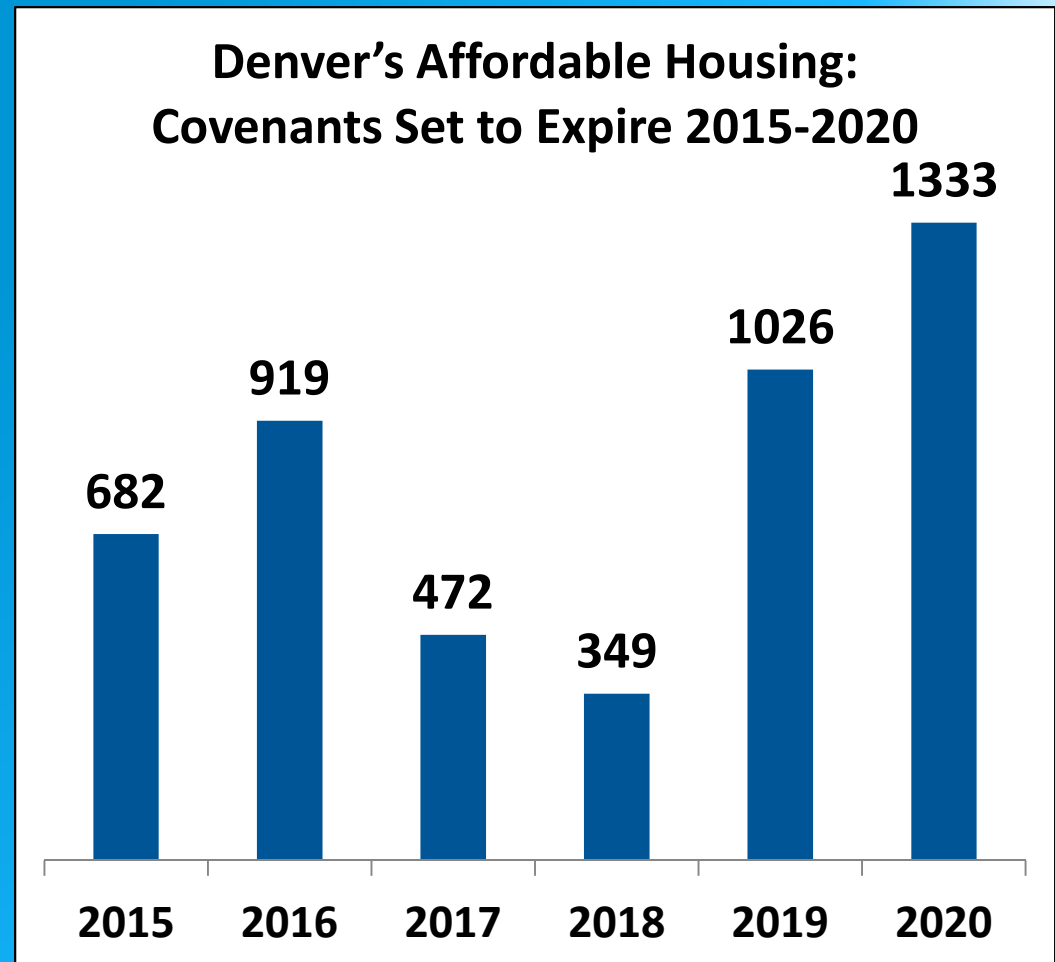
Why Is Preservation Critical?

As many as 4,500 affordable units have covenants that expire in the next 5 years...

... So without affordable housing **preservation**, we will actually have fewer total affordable units than before 3x5.

We're running to stay in place.

5



Source: Preservationdatabase.org

What Can We Do to Preserve Units Today?

In 2000, Council passed an **ordinance** that gives the City **important tools** to help preserve the affordability of units:

- Includes properties that have received **any city subsidy** or federal subsidies including **project-based rental assistance (Section 8), federal mortgage assistance, or federally funded loans, contracts, or insurance**
- **210 days** notice when an owner plans to let a covenant expire (**150 days** if the covenant is a one-year extension)
- Right for the City or its designee to **inspect** the unit to **determine fair market value**
- Requirement that owners “**refrain from actions that would preclude the purchase of the property**” by the City or its designee during the notice period

We Need More Powerful Tools to Make a Difference

Even with these tools, the City and its partners **have not been able to prevent affordable units from transitioning** to market rate.



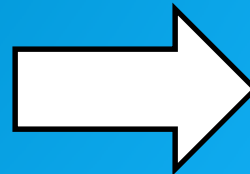
In 2013, the National Housing Trust prepared a study that **compared Denver's ordinance to its peers and recommended amendments** to make our ordinance more effective.

We Need More Powerful Tools to Make a Difference

#1 Cover other affordable units not presently included

Current Ordinance

Covers only units that have received **city subsidies** or **specific federal subsidies**



Proposed Amendment

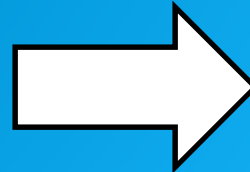
Adds units that have received **Low-Income Housing Tax Credits** (administered by CHFA)

We Need More Powerful Tools to Make a Difference

#2 Include properties that are listed for sale

Current Ordinance

Covers only units with
**deed-restricted
covenants that are
expiring**



Proposed Amendment

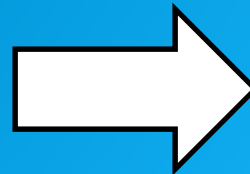
Adds units that are
**at risk of
conversion to
market-rate via a
sale**

We Need More Powerful Tools to Make a Difference

#3 Include first right of refusal

Current Ordinance

Gives the City or its designee **access to inspect** the unit in order to prepare a market-rate offer, and **prohibits owners from taking action that would preclude purchase** by the City or its designee



Proposed Amendment

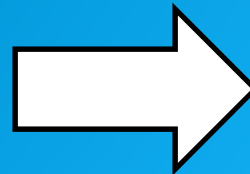
Gives the City or its designee **120 days to match any offer** on the property and makes all sales of covered properties contingent on City's right of refusal

We Need More Powerful Tools to Make a Difference

#4 Require increased notice to opt out

Current Ordinance

Owners must provide City with **210 days** notice of a lapse in affordability, or **150 days** if extension of a previous covenant, or **90 days** if the project received City subsidies only

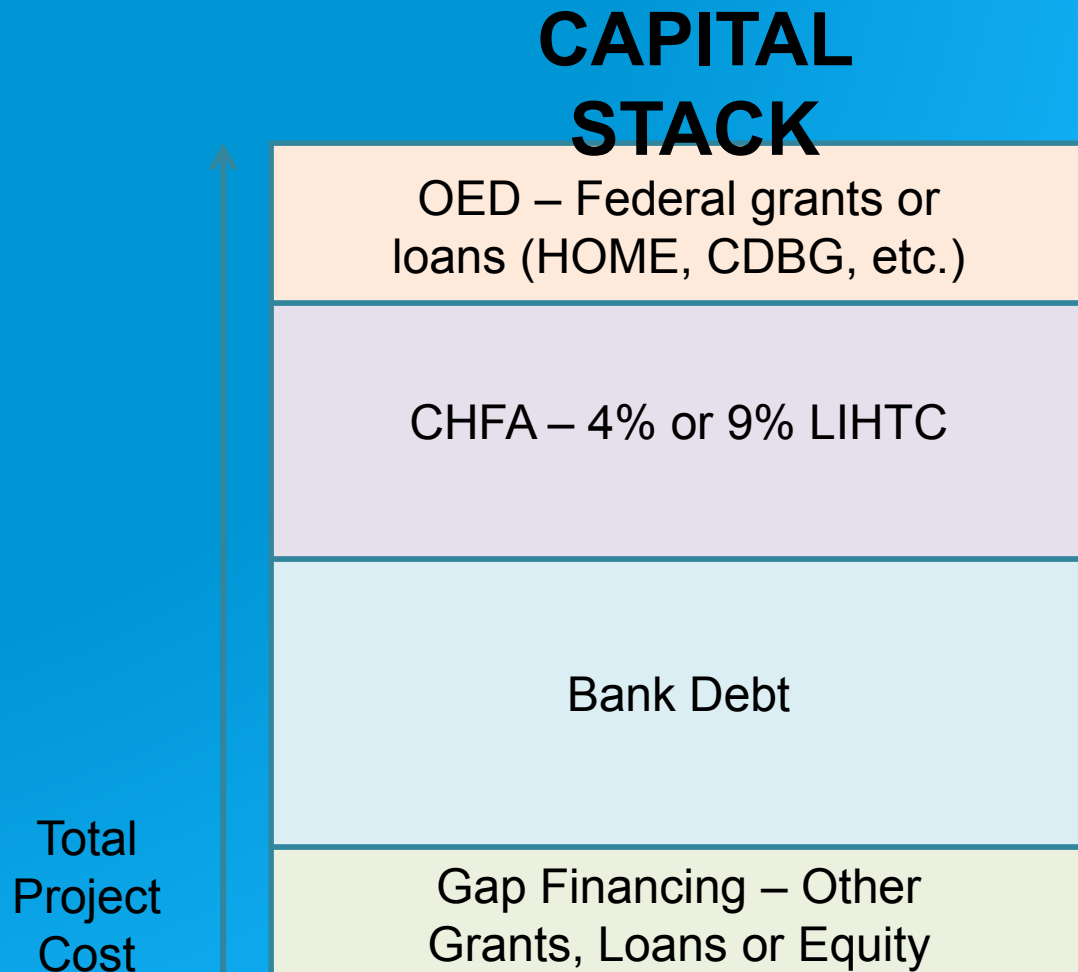


Proposed Amendment

Owners of all covered properties must provide City with **one year** notice of a lapse in affordability

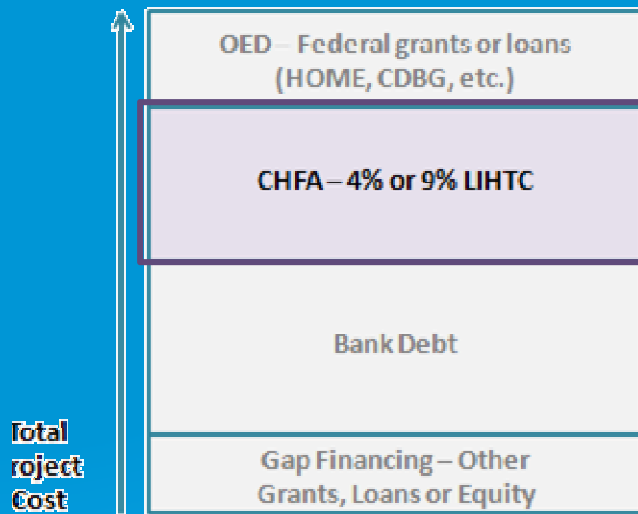
Revolving Affordable Housing Loan Fund: Operating Agreement with CHFA

The Affordable Housing Capital Stack



Low-Income Housing Tax Credits (LIHTC)

CAPITAL STACK



Developers can apply for two types of tax credits for low-income housing:

4% LIHTC

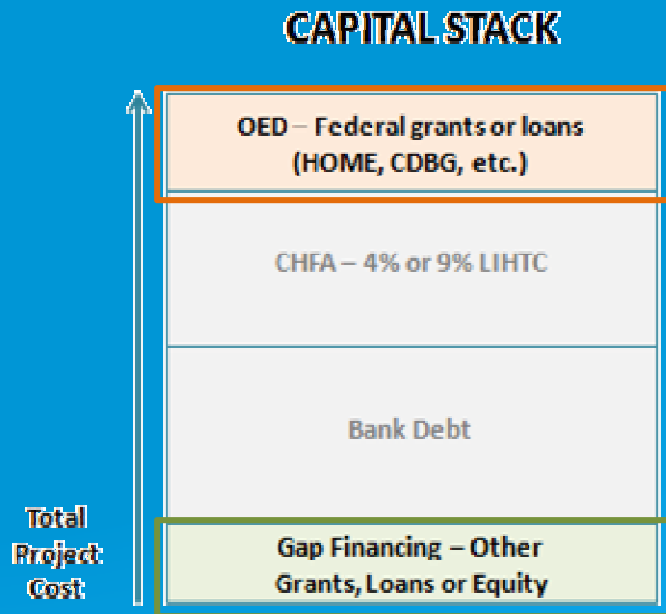
- “Automatic” - Available to all projects that meet requirements
- Designed to be paired with other subsidies
- Covers about 30% of total project costs

9% LIHTC

- Competitive process (4 projects in CO awarded this year)
- Designed to be only project subsidy
- Covers about 70% of total project costs

For both 4% and 9%, projects must remain **affordable for 15 years**

OED Federal Funds & Gap Financing



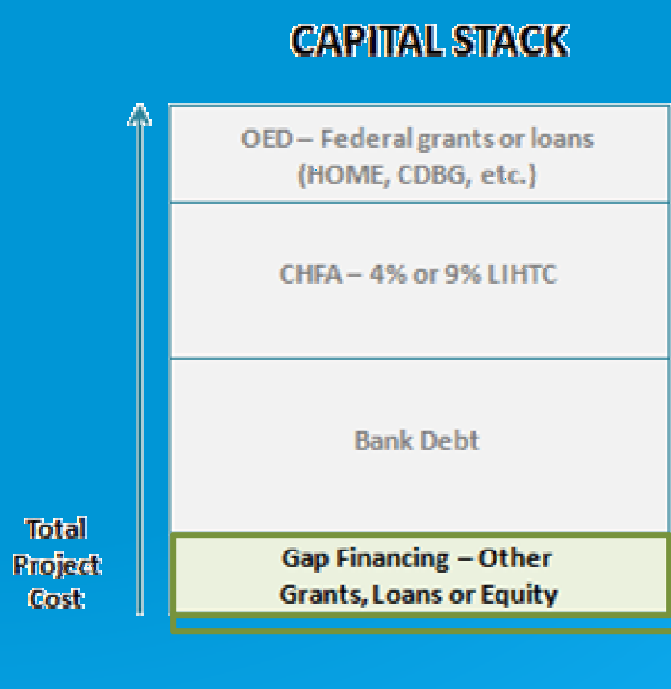
Projects that are awarded a 4% LIHTC still need additional low-cost capital



Most seek grants or loans from OED under our federal funding programs...

... but still have a gap in their capital stack

Where the RAHLF Comes In



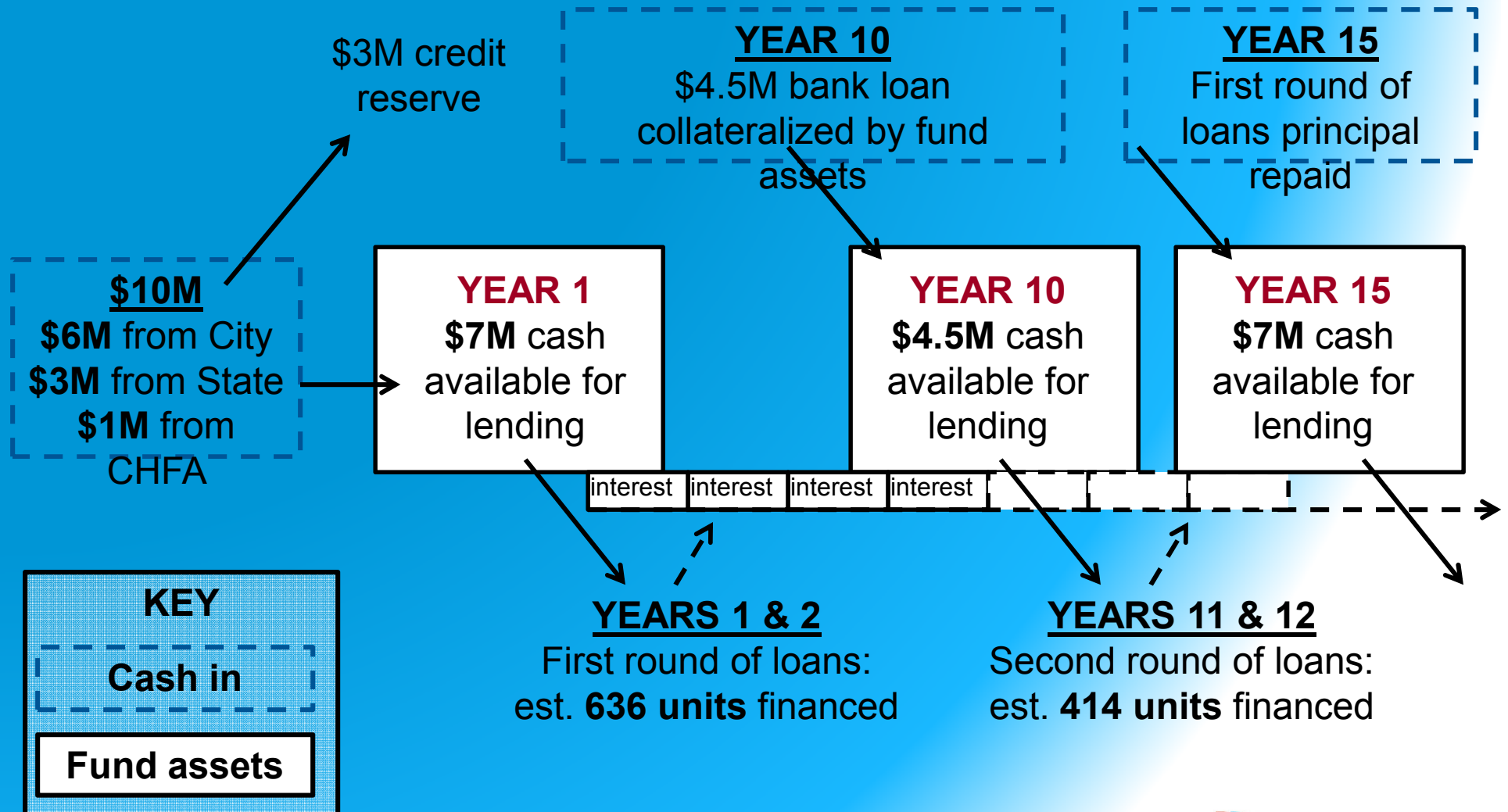
RAHLF is designed to provide **additional low-cost financing** to help more affordable housing projects become feasible

- Capitalized with **\$10M** from City, State, and CHFA
- **<80% AMI**
- Up to 40-year amortization with **10 years interest-only**
- **LIBOR + 2.5%** interest rate

The RAHLF Model

| | Years | | | | | | | | | | | | | | | 16 | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | Fund Turns |
| Amortization received - OED Portfolio | - | - | - | - | - | - | - | - | - | - | - | 124,657 | 316,058 | 388,625 | 400,445 | 412,625 | - |
| Interest received - OED Portfolio | - | - | 105,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 208,165 | 202,117 | 191,464 | 179,643 | 167,464 | - |
| Amortization received - BD 1 Portfolio | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Interest received - BD 1 Portfolio | - | - | - | - | - | - | - | - | - | - | - | 45,460 | 113,650 | 136,380 | 136,380 | 136,380 | 136,380 |
| Amortization paid - BD 1 Loan | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Interest paid - BD 1 Loan | - | - | - | - | - | - | - | - | - | - | - | (30,307) | (75,767) | (90,920) | (90,920) | (90,920) | (90,920) |
| Net Cash Flow In | - | - | 105,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 210,000 | 347,976 | 556,059 | 625,549 | 625,549 | 625,549 | 45,460 |
| Cash Balance - Restricted | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| Cash OED to Lend | 7,000,000 | 3,500,000 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 5,000,000 |
| Cash Cumulative From Int. & Amort. | - | - | 105,000 | 315,000 | 525,000 | 735,000 | 945,000 | 1,155,000 | 1,365,000 | 1,575,000 | 1,785,000 | 2,132,976 | 2,689,034 | 3,314,583 | 3,940,132 | 4,565,680 | 4,968,730 |
| Notes Receivable - OED Funds | - | 3,500,000 | 7,000,000 | 7,000,000 | 7,000,000 | 7,000,000 | 7,000,000 | 7,000,000 | 7,000,000 | 7,000,000 | 7,000,000 | 6,875,343 | 6,559,285 | 6,170,660 | 5,770,215 | 5,357,590 | - |
| Notes Receivable - BD 1 Portfolio | - | - | - | - | - | - | - | - | - | - | - | <u>2,273,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> |
| Total Assets | 10,000,000 | 10,000,000 | 10,105,000 | 10,315,000 | 10,525,000 | 10,735,000 | 10,945,000 | 11,155,000 | 11,365,000 | 11,575,000 | 11,785,000 | 14,281,319 | 16,794,319 | 17,031,243 | 17,256,346 | 17,469,270 | 17,514,730 |
| Notes Payable - BD 1 Loan | - | - | - | - | - | - | - | - | - | - | - | <u>2,273,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> |
| Total Liabilities | - | - | - | - | - | - | - | - | - | - | - | <u>2,273,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> | <u>4,546,000</u> |
| Net Equity | 10,000,000 | 10,000,000 | 10,105,000 | 10,315,000 | 10,525,000 | 10,735,000 | 10,945,000 | 11,155,000 | 11,365,000 | 11,575,000 | 11,785,000 | 12,008,319 | 12,248,319 | 12,485,243 | 12,710,346 | 12,923,270 | 12,968,730 |
| Total Liabilities and Net Equity | 10,000,000 | 10,000,000 | 10,105,000 | 10,315,000 | 10,525,000 | 10,735,000 | 10,945,000 | 11,155,000 | 11,365,000 | 11,575,000 | 11,785,000 | 14,281,319 | 16,794,319 | 17,031,243 | 17,256,346 | 17,469,270 | 17,514,730 |
| Units Built | - | 318 | 318 | - | - | - | - | - | - | - | - | 207 | 207 | - | - | - | 649 |
| Cumulative Units Built | - | 318 | 636 | 636 | 636 | 636 | 636 | 636 | 636 | 636 | 636 | 843 | 1,050 | 1,050 | 1,050 | 1,050 | 1,699 |

RAHLF Model in Detail



Requested Ordinance

The requested ordinance is an **operating agreement with CHFA** to service and underwrite loans made under RAHLF

- CHFA's operating expenses are paid by borrowers through fees and a portion of interest paid → **no cost to City**
- OED's Loan Review Committee maintains ultimate **oversight over which projects receive loans**

MMA+ Amendments

“Metro Mortgage Assistance Plus” (MMA+) Program Summary

Down Payment Assistance of 4%
(3% + 1% Origination)
of the total mortgage amount -
in exchange for a slightly higher mortgage interest rate

Purpose of Amendment

- Current Program restricts funds to be used only for down payment assistance (DPA) as part of the MMA+ program.
- The amendment will allow a portion of funds to be spent on additional affordable housing activities.
- Proposed expenditures would be developed by City Staff, ratified by OED's Loan Review Committee, and submitted to CFO for approval.

Taxable Denver MMA Plus Program



Thank You!

APPENDIX

MMA+ Program Summary

Program Basics:

- **Net 3% Down Payment Assistance “Grant” and up to 1% Origination Fees** to qualifying low & moderate income homebuyers.
- Mortgage rates to buyers are slightly above market (currently about 0.25% - 0.50% above market today). Mortgage interest rates fluctuate to stay competitive with current market. As of 8/12/15, program mortgage rate is 4.5%.
- Eligible loans must be **30 year fixed rate FHA or VA**, and are then pooled into GNMA Certificates.
- **Currently a \$45 Million Revolving Program:** Participating lenders may reserve and close loans at any time. As soon as GNMA Certificates are pooled and sold, the capacity of the Program is restored by such amount.
- Denver funds Down Payment Assistance, and is reimbursed upon sale of GNMA Certificates.
- Denver earns an Issuer Fee.

MMA+ Program Summary

Home Buyer Requirements:

- Purchases only. No refinances.
- No first-time homebuyer requirement.
- **Maximum** qualifying income:
 - \$91,100 (2 or fewer in household)
 - \$103,000 (3 or more)
- Minimum 640 FICO credit score, with monthly recurring debt payments not exceeding 45% of monthly income (45% debt-to-income).
- Homebuyer education required from HUD approved agencies
- No maximum purchase price.

MMA+ Lenders

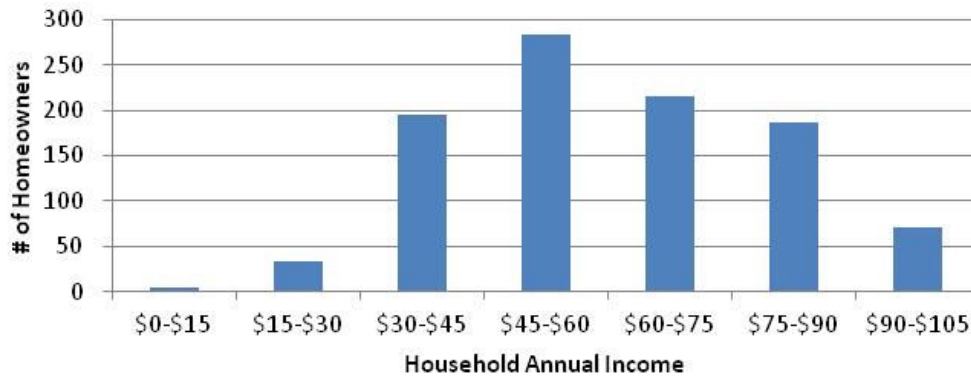
ORIGINATION SUMMARY REPORT as of 8/12/15

51 Active Lenders:

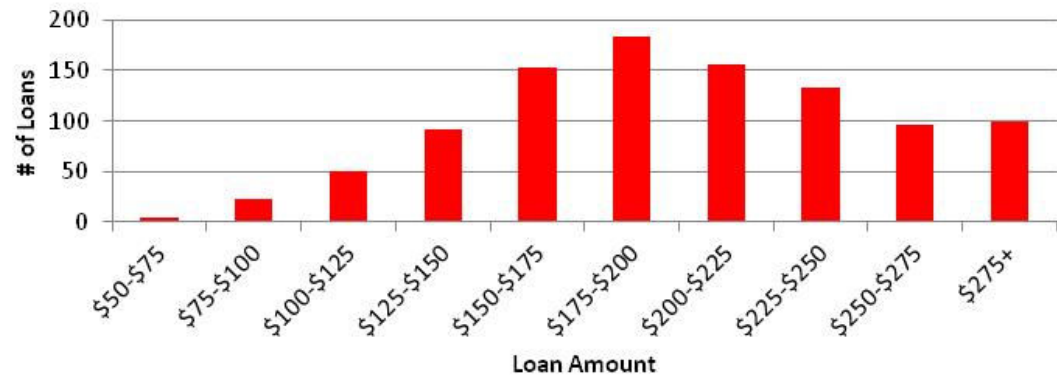
| | |
|--|-------------------------------------|
| Academy Mortgage Corporation | Guild Mortgage, Corporation |
| Air Academy FCU | Hallmark Home Mortgage |
| American Financing Corporation | HomeBridge Financial Services Inc. |
| American Pacific Mortgage Corporation | Ideal Home Loans, LLC |
| America's Mortgage LLC | Loan Simple, Inc. |
| AmeriFirst Financial, Inc. | MegaStar Financial |
| AmeriPro Funding, Inc. | Mortgage Solutions of Colorado, LLC |
| Axia Financial, LLC | NOVA Financial & Investment Corp. |
| Broker Solutions Inc, DBA New American Funding | On Q Financial, Inc. |
| Caliber Home Loans, Inc | Peoples National Bank |
| Catalyst Lending, Inc. | Primary Residential Mortgage, Inc |
| Cherry Creek Mortgage | Real Estate Mortgage Network, Inc. |
| Citywide Home Loans | Rocky Mountain Mortgage Specialists |
| Commerce Mortgage | Stearns Lending LLC |
| Cornerstone Home Lending, Inc. | Stearns Lending, Inc |
| DHA Financial, Inc. | Stone Gate Mortgage Corporation |
| DHI Mortgage Co., Ltd. | Summit Mortgage Corporation |
| Ent Federal Credit Union | The Mortgage Company |
| Envoy Mortgage, Ltd | Universal American Mortgage Company |
| Everett Financial, Inc. | Universal Lending Corporation |
| Fairway Independent Mortgage Corporation | Vectra Bank Colorado, NA |
| First California Mortgage | VIP Mortgage Inc |
| First Choice Loan Services, Inc. | Wells Fargo Home Mortgage |
| Georgetown Mortgage, LLC | Weststar Mortgage Corporation |
| Goldwater Bank, N.A. | WR Starkey Mortgage, LLP |
| Guaranteed Rate Inc | |

MMA+ Program Success

of Homeowner's Helped Segmented by Annual Income (\$ in 000s)



of Homeowner's Helped Segmented by Purchase Price (\$ in 000s)



Program Success

| 2015 Denver MMA Plus Program | | | | |
|---------------------------------------|------------------|------------------------------------|----------------------|-----------------------|
| Dated: July 16, 2015 | | Launch Date: March 20, 2013 | | |
| Number of Households Helped: | 976 | | | |
| Total Dollar of Transactions: | \$192,099,198 | | | |
| Participating Lenders: | 63 | | | |
| Total Down Payment Assistance: | \$7,683,968 | | | |
| | | | Property Type | |
| | | | YTD | Entire Program |
| Single Fam | | | 78 | 727 |
| Condo | | | 13 | 124 |
| Duplex & Fourplex | | | 1 | 7 |
| Row/Townhome | | | 18 | 118 |
| Total | | | 110 | 976 |
| Current Interest Rate Offered | 4.500% | 3.625% | 5.125% | |
| | Averages: | Low | High | |
| Loan Amount: | \$196,823 | | | |
| Purchase Price: | \$200,945 | | | |
| Household Income: | \$60,611 | | | |
| | | 1st Time buyers | 974 | 99.8% |
| | | Total Denver | 308 | 31.6% |

Participating jurisdictions: Metro Mayor's Caucus & Metro Area County Commissioners

| Active Cities: | |
|-----------------------|-------------|
| Arvada | Edgewater |
| Aurora | Englewood |
| Bennett | Firestone |
| Boulder | Golden |
| Brighton | Lakewood |
| Broomfield | Littleton |
| Castle Rock | Parker |
| Centennial | Sheridan |
| Commerce City | Thornton |
| Dacono | Westminster |
| Denver | Wheat Ridge |

| Active Counties: |
|-------------------------|
| Arapahoe |
| Boulder |
| Broomfield |
| Denver |
| Jefferson |