CITY OF CAMBRIDGE

COMMUNITY DEVELOPMENT DEPARTMENT

BETH RUBENSTEIN
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Deputy Director for Community Development

TO: Robert Healy, City Manager

FROM: Beth Rubenstein BR Assistant City Manager for Community Development
Darcy L. Jameson DJ, Housing Director

DATE: May 1, 2002

Re: Council Order #1 dated April 29, 2002: Middle Income Homeownership Program (80-120% of Median Income)

The purpose of this memo is to outline a proposed structure for a middle-income homebuying program. The program would have two components, due to funding source restrictions. The first component would be a grant program for buyers up to 100% of median income. This program would be funded by Community Preservation Act (CPA) funds. The second component would be a low interest loan program for buyers between 100% and 120% of median income. This program would utilize the Harvard 20/20/2000 Initiative funding since CPA monies are available only to buyers earning less than 100% of median income. The proposed structure of each program is outlined below. The subsidy levels are based on an analysis of the gap between what a homebuyer can afford and the market price of housing.

The median asking price of a condominium in Cambridge is currently around $525,000. Almost all of the units priced at or below the median price consist of one and two bedroom apartments. This price represents a dramatic increase within the past two months because of very high demand for lower priced inventory. The assumptions below are based on current market conditions and assume that buyers are purchasing units priced below the median asking price ($315,000 for a one-bedroom and $390,000 for a two bedroom).

<u>Purchase-Price Buydown for Buyers up to 100% of Median Income</u>
(A direct grant with standard deed restrictions)

Affordability gap: Single person: $104,000 (100% AMI) to $145,000 (80% AMI)
Family of four: $91,000 (100% AMI) to $151,000 (80% AMI)

Other Public Subsidy: Buyers would be required to maximize all available subsidies as a condition of program participation (e.g.: Soft Second Loans)

Average Award: $112,000 (gap average as adjusted for expected subsidies)

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Maximum Award: $131,000 (highest gap adjusted for expected subsidy)

Annual Funding: $896,000 (assuming eight households receive assistance per year)

Program Structure: The program would operate in a manner similar to our existing downpayment assistance program. Grants of up to $130,000 would be available and would be accompanied by standard deed restrictions regarding resale. Potential purchasers could apply for a pre-qualification for funds from CDD provided they already have bank pre-approval. CDD would then issue a conditional pre-qualification letter that buyers could use in conjunction with their bank pre-approval and downpayment verification when looking for a home. Final approval would be granted once they have signed a purchase and sale agreement and provided CDD with a final mortgage commitment, updated financials, and a copy of their home inspection report.

Deed Restriction: The standard restrictions would be enforced by utilizing CDD's existing Affordable Housing Agreement.

Comments: This program would reduce the purchase price of units sold to moderate income families and would add these units to the City's permanent stock of affordable housing. Disadvantages include the high cost of assistance and the limited number of families that would be served.

<u>Low-Interest Mortgage Program for Buyers Between 100% and 120% of Median Income</u>
(Second mortgage at 2% with limited deed restrictions)

Affordability gap: Single person: $65,000 (120% AMI) to $104,000 (100% AMI)
Family of four: $35,000 (120% AMI) to $91,000 (100% AMI)

Other Public Subsidy: Require buyers to maximize first mortgage amounts by utilizing special first-time buyer financing that allows higher qualifying ratios.

Average Loan: $182,000 (The average gap is $73,000. This loan amount would provide the equivalent amount of assistance.)

Maximum Loan: $260,000 (The largest gap is $104,000. This loan amount would provide the equivalent amount of assistance.)

Annual Funding: $910,000 (assuming five loans per year)

Program Structure: Second mortgages up to $230,000 on a thirty-year payment schedule would be made available, with a fifteen-year balloon payment to comply with the repayment provisions of the Harvard Loan Fund. We expect to work with a local bank or banks to administer these loans.

Deed Restriction: The loan program would provide partial low cost financing to assist buyers in purchasing a home. However, unlike the grant program, it would not lower the cost of the home at sale or upon resale because the loan must be paid back. Effectively, it would help buyers by reducing monthly carrying costs. Due to the repayment requirement, traditional deed restrictions would not work with this program. If they sell their units within five years of closing, buyers would be required to pay back the difference between the subsidized interest rate and the market rate. There would be no other deed restriction, other than a right of first refusal for the City to re-purchase the unit at the appraised price.

Comments: This program would assist middle-income homebuyers. The program would provide a second mortgage at a 2% interest rate equal to the rate under the terms of the Harvard funding. The program would make it possible for middle-income homebuyers to purchase a house by lowering their monthly payments. The disadvantage of this program is that it does not lower the overall acquisition cost nor does it add to the stock of permanent affordable housing.

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CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager *Richard C. Rossi, Deputy City Manager*

May 6, 2002

To The Honorable, The City Council:

In response to Awaiting Report Item No. 02-38, I am submitting a draft of the pilot program developed by the Community Development Department Housing Division to assist households with incomes between 80-120% of the area median income (up to $89,040 for a household of four).

Housing Staff will be discussing the program with the Affordable Housing Trust at the May Trust meeting. Based on this discussion, staff will make any necessary refinements and finalize the program design. Once finalized, the Housing Division will begin marketing the program. We plan to make the program available to Cambridge residents in Summer 2002.

Very truly yours,

Robert W. Healy

Robert W. Healy
City Manager

RWH/mec
Attachment

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Consent Agenda #1

Awaiting Report Item Number 02-38, regarding the City's housing policy that includes moderate and middle income families and individuals.

In City Council May 6, 2002

REFERRED TO HOUSING COMMITTEE.