CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT

BETH RUBENSTEIN
Assistant City Manager for Community Development

MALAINA BOWKER
Deputy Director for Community Development

To: Robert W. Healy, City Manager

BR

From: Beth Rubenstein, Assistant City Manager for Community Development

Date: December 13, 2000

Re: Council Order #43 dated July 31, 2000: Report on what changes in regulations and/or other measures are necessary for Cambridge to initiate a Section 8 pilot program.

In response to the above referenced order on the Section 8 Program and homeownership, we report the following:

Program Overview

The Cambridge Housing Authority (CHA) administers the Section 8 program. The program is designed to provide low-income renters (households below 50% of the area median income) with a rental subsidy that is paid directly to their landlord.

In September 2000, the U.S. Department of Housing and Urban Development (HUD) launched a new program that permits eligible households to apply a Section 8 subsidy toward a mortgage payment and other related housing costs. The Section 8 subsidy equals the difference between 30% of the household's income and the current Fair Market Rent as established by HUD for different regions of the country. The Section 8 homeownership subsidy would remain in place for 10 years.

The program increases the ability of low-income households to become homeowners. Other criteria for homeownership include the ability to obtain a bank mortgage, savings for down payment and closing costs, good credit, and minimal debt.

Challenges Related to Implementing a Section 8 Homeownership Program

High Housing Costs in Cambridge: Due to high property costs in Cambridge, there is a tremendous gap between what a household with a Section 8 subsidy could afford and the cost of a unit. The following example highlights the gap for a household that requires a two-bedroom unit.

City Hall Annex
57 Inman Street
Cambridge, MA 02139
Voice: 617 349-4600
Fax: 617 349-4669
TTY: 617 349-4621

The current Fair Market Rent in Cambridge for a two-bedroom unit is $1,130 (this is the maximum subsidy that the CHA is authorized by HUD to pay). A household with a Section 8 voucher is eligible for the difference between 30% of their income (e.g., $818 for a family of 4 at 50% of area median income) and the Fair Market Rent of $1,130.

Based on a monthly housing allowance of $1,130, the maximum mortgage for which a household would qualify is approximately $105,000. With the median cost of a two-bedroom condominium in Cambridge exceeding $252,000, the cost of housing for most low-income households is out of reach in Cambridge.

In addition to the high cost of housing in Cambridge, there are two fundamental considerations that may affect the feasibility of the program and long-term success of low-income homebuyers.

"Sunset Provisions" on CHA Resources: Under the provisions of the Section 8 Homeownership program, the subsidy to households terminates in approximately 10 years. This is based on HUD's assumption that the need for subsidy will decrease as a household's income rises. This presents a fundamental problem for households regarding their ability to sustain mortgage payments once the subsidy ends.

Underwriting Issues and Increased Risk of Mortgage Default: Typically banks make mortgage loans for 30 years at a fixed rate. A household's mortgage application is evaluated based on an analysis of the household's ability to make payments for the duration of the loan. Therefore, a low-income household is unlikely to be eligible for a bank mortgage since the Section 8 subsidy will terminate in approximately 10 years.

Next Steps

Community Development Housing staff and the CHA will continue to explore opportunities to implement a Section 8 Homeownership program in Cambridge. Currently, we are collaborating with the Citizen's Housing and Planning Association (CHAPA) to identify ways that the rules and regulations could be modified and to develop strategies for addressing implementation challenges that communities throughout the state are facing. Possible changes include:

- expanding the subsidy term beyond 10 years,
- developing special programs with lenders to serve households with Section 8 homeownership subsidies, and
- increasing the subsidy available to households in high-cost areas.

We would like to continue this discussion with the Housing Committee as we explore strategies for implementing this program in Cambridge.

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CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

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

December 18, 2000

To The Honorable, The City Council:

Please find attached a response to Awaiting Report Item No. 00-50, regarding a report on what changes in regulations and/or other measures are necessary for Cambridge to initiate a Section 8 pilot program, received from Assistant City Manager for Community Development Beth Rubenstein.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
Attachment

2000 Things 2 Do in 2000

795 Massachusetts Avenue, Cambridge, Massachusetts 02139 Voice: 617.349.4300 Fax: 617.349.4307 TTY: 617.349.4242 Web: www.ci.cambridge.ma.us

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Consent Agenda Item#5

Awaiting Report Item Number 00-50, regarding a report on what changes in regulations and/or other measures are necessary for Cambridge to initiate a Section 9 pilot program.

In City Council December 18, 2000

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