CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT

MICHAEL ROSENBERG,
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MARY FLYNN,
Deputy Director for Community Development

M E M O R A N D U M

TO: Robert W. Healy, City Manager

FROM: Michael H. Rosenberg, MHR Assistant City Manager for Community Development

SUBJECT: Response to Council Order #13, dated 4/12/93 RE: City Administered Home Improvement and Housing Rehabilitation Programs

DATE: April 29, 1993

The City of Cambridge Community Development Department (CDD), in partnership with local nonprofit housing agencies including Homeowner's Rehab, Inc. (HRI), Just A Start (JAS) and Neighborhood Apartment Housing Services (NAHS), runs a number of programs designed to rehabilitate both the owner occupied one-to-four unit family stock and the multi-family stock. The general goals shared by both types of programs are to upgrade the existing stock while preserving the affordability. The description of the programs and criteria for participation are as follows; additional information is provided in the attached program brochures.

I. <u>Home Improvement Program (HIP)</u>: This program, funded primarily through federal CDBG funds and loan repayments, assists low-and moderate-income homeowners in one-to-four unit family properties to make code-related improvements to their properties. A typical HIP client is an elderly woman, living on a fixed-income, whose only asset is her home. Many times, it is difficult for an owner in this situation to deal with the complexities of rehabilitating an older home. The nonprofits, HRI and JAS, which administer this program under contract with CDD, provide extensive technical assistance to HIP clients. This assistance includes help identifying the scope of rehab necessary, selecting a contractor at a fair price, monitoring construction, and tenant selection, if necessary. This assistance helps ensure the overall quality of the work and ongoing viability of the property.

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Virtually every year, the demand for HIP loans exceeds available resources. In the past, CDBG funding for this program has been augmented by East and North Cambridge Stabilization Committee funding which is now winding down.

We have recently allocated a portion of the City's new federal HOME funds to be used on a pilot basis to increase slightly the resources available for HIP loans.

The HIP Program achieves a number of important benefits including:

1. Stabilizing low-and moderate-income homeownership. Without a low-interest loan program like HIP, some lower-income homeowners could not continue to own and live in their homes. In other communities, low-income and elderly homeowners have been forced by lack of a HIP program to take loans from unscrupulous second-mortgage lenders at extremely high interest rates which result in foreclosures. Due in part to the City's eighteen year commitment to the HIP program, Cambridge has not experienced any of these second mortgage scams in its owner-occupied stock.

2. Improvement of owner-occupied stock. The HIP programs provide resources to help owners improve the condition of their homes. Loans, ranging up to $25,000, are used for electrical upgrading, roof replacement, porch repairs, and other critical code related work. In some cases, if these loans were not made lower-income owners would be forced to either sell their homes or live in potentially hazardous conditions.

3. Stabilizing neighborhoods. The HIP program has traditionally been recognized as an important tool in the stabilization of neighborhoods. If lower-income owners are unable to maintain their homes and must sell them, likely to upper-income buyers, the overall diversity of a neighborhood can be negatively impacted. The cost of creating homeownership opportunities for lower-income households is much more expensive than the cost of preserving existing ownership.

II. <u>Multi-Family Programs</u>: The City has four ongoing multi-family loan funds available to assist owners in the rehabilitation of their properties - Neighborhood Apartment Housing Services (NAHS) Program, Small Property Owners Program, the HELP Fund and the Pilot Delead Program.

1. Small Property Owners Program - This program is designed to assist owners of twelve or fewer units of rent-controlled housing to finance moderate-level rehab. The Program makes loans of up to $8,000 per unit in buildings which have no more than $15,000 per

unit of total rehab needs. The purpose of the Program is to provide access to financing to properties before they become seriously deteriorated and require more substantial rehab.

Since the financing of the Program is provided by a consortium of Cambridge banks rather than public sources, no income test of either owners or tenants is required. The limit on the loan size and favorable bank terms limit the resulting rent increases.

Staff at NAHS, supported by City funds, provide extensive technical assistance to help owners develop a rehab and financing package, bid and monitor rehab work and obtain Rent Control approvals.

2. Neighborhood Apartment Housing Services Program - This Program is designed to assist any owner of rent-controlled property in rehabbing their property while ensuring that rents remain affordable. The scope of rehabilitation in this Program is determined by the needs of the building and ranges from moderate to more substantial rehabilitation.

   NAHS loan funds are capitalized by primarily public sources which require that 51% of the tenants in a property have low-and moderate-incomes. Once an owner applies to the Program, tenants are interviewed by NAHS staff to determine affordable rent levels and to get tenant input on desirable rehab levels. Loan terms are tailored to ensure that no tenant pays more than 30% of their income for housing costs.

   NAHS can make loans for as much as $15,000 per unit with rates as low as 3%, with the balance of loan funds coming from other sources. As in the Small Property Owners Program, NAHS staff provide comprehensive technical assistance to owners in determining a financially feasible rehab plan, obtaining bank and Rent Control approvals, as well as monitoring construction work.

3. The HELP Fund - This Fund, established by Harvard as a result of a Rent Control settlement and administered by CDD is aimed specifically at seriously distressed, vacant or in danger of becoming vacant, Rent Controlled properties, including limited equity coops and lodging houses. HELP loans are generally used to make fifteen year loans at a 3% interest rate. Because the target properties are among the most deteriorated in Cambridge and require extensive rehab, larger HELP loans are required.

4. Pilot Delead Program - This Program, administered by Community Development, is designed to assist small property owners in deleading vacant units or units occupied by children under seven years of age. Lead paint is a significant health hazard to young children and is present in much of the City's multi-family stock. The existence of lead paint in properties has been identified as a major barrier to property owners' willingness to rent to families with children.

   The Program provides a 50% grant, up to $2,500 per unit, to help owners of rent-controlled properties delead family-sized units. In exchange, owners are required to rent or continue to rent the deleaded units to low or moderate-income tenants with children for at least one tenancy.

The housing nonprofits, with the support of the City, have developed a strong infrastructure capable of making loans to both owner-occupants and multi-family investors. Many of the issues related to making loans to support rehab of the Rent Controlled stock - working with the bank community as well as rent Control, tenant and owners have been resolved. However, the uncertain funding climate, both in terms of additional capital for loan funds and in the scarcity of rental subsidies available for low-income residents, will continue to limit the overall production of these programs.

We are currently examining the potential of using HOME funds on a pilot basis to rehab multi-family properties. However, the current HOME regulations make HOME an unlikely source of financing for private owners due to long-term affordability restrictions, strict income targeting (all tenants must be below 60% of median) and ongoing rent restrictions. HOME requires that all units assisted be rehabilitated to Section 8 Housing Quality Standards which rules out the use of funds for a "phased" rehab program. There is some possibility that Congress will make statutory changes which minimize these regulatory barriers. In addition, the City is exploring other potential sources of low-interest financing, including the Federal Home Loan Bank Affordable Housing Program, which may be useful in the rehabilitation of the Rent Control stock.

MHR:SS:nb

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

May 3, 1993

To The Honorable, The City Council:

With reference to Awaiting Report Item No. 37, regarding a report on all city administered home improvement and housing rehabilitation programs, please find attached a response from Michael H. Rosenberg, Assistant City Manager for Community Development.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev
attachment

CONSENT AGENDA ITEM #17

S-213

Awaiting Report Item No. 37 regarding a report on all city administered home improvement and housing rehabilitation programs.

See Finance 1993 # 64
for original order.

In City Council,

May 3, 1993

Referred to the
Housing and Community
Development & Rent
Control Committees.
5/5/93 Copy sent to Housing &
Community Dev. Dept. &
Rent. Control Comm.