



Date: September 24, 2014

To: Mayor Lavelle and the Carrboro Board of Aldermen
Copy: David Andrews
From: Robert Dowling, Community Home Trust
Re: Challenges that require action

In 2007, I addressed the Assembly of Governments about two challenges that jeopardized the success of inclusionary housing. Those challenges were (i) long term affordability of our homes, and (ii) long term maintenance.

Since 2007, we have been chipping away at the maintenance issue and have made great progress. However, the affordability problem is worse today than it was in 2007 due primarily to two factors:

1. HUD income limits for purchasers are lower today than they were in 2007
2. The costs of owning one of our homes increases every year due to higher home prices and higher HOA dues, property taxes and stewardship fees.

I am compelled to write this memo because external circumstances continue to present risks to the long term success of inclusionary housing. I believe it is my responsibility to alert you to these risks and to offer mitigating solutions.

Specifically, the risks that jeopardize inclusionary housing are these:

1. Home Trust home buyers have very limited access to mortgage financing
2. Reduced federal subsidies, in conjunction with continued stagnant income limits, make it increasingly difficult to resell Home Trust homes.

Due to changes in mortgage financing regulations, most banks will not make loans to Home Trust buyers. Fortunately, the NC Housing Finance Agency provided \$5 million specifically for our buyers. This funding enabled us to sell 40 homes in fiscal year 2013-14. However those funds will be exhausted in 2015 and we need to identify alternative sources of mortgage funding.

Our ability to attract other lenders, such as SECU and Self Help, requires that we allow these lenders to obtain the fee simple interest in the property in the event of foreclosure. The board of the Home Trust has approved making this change because they realize that without lenders our model simply does not work. However, there is a risk - *If we provide the fee simple interest as collateral, and we allow a home to be foreclosed upon, we would lose it from our inventory entirely.*

We recognize the risks of making this change, but the Home Trust board has weighed those risks and approved the change in order to accommodate the

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needs of our home buyers. We have never had a foreclosure and we hope never to allow a home to be foreclosed upon. However, the Home Trust cannot unilaterally agree to provide the fee simple interest without approval from all of our funders – including the HOME consortium.

By way of this memo, we are requesting approval from the Board of Aldermen to allow lenders to have an unrestricted, fee simple interest in Home Trust homes in the event of foreclosure. We are more than happy to work out the details with your attorney and staff.

On the matter of reduced federal subsidies, the HOME Consortium could help us to better utilize HOME funds that are already invested in our homes by allowing us to sell to higher income households. Currently, we are prohibited from doing so because our HOME performance agreement imposes 99 year affordability restrictions that limit buyers to 80% of AMI.

By allowing us to sell to households up to 115% of AMI, *when permissible by HUD*, our local governments will assist us in two important ways:

1. Our window of eligible buyers will be widened (which will increase diversity in some of our neighborhoods)
2. We will require less subsidy in the future to continue to make all of our homes affordable to households at 80% AMI

Again, by way of this memo, I am requesting approval from the Board of Aldermen, as a member of the HOME consortium, to allow us to sell subsidized homes to households between 80% and 115% of AMI when permitted by HUD.

Both of these challenges, if left unaddressed, have the potential to truly disrupt the success of our inclusionary housing programs. We had hoped that the Charter would address these issues, but approval of the Charter has been understandably delayed. We have asked each of the local governments to approve these requests prior to consideration of the Charter.

Thanks to the support of local governments, there are 229 affordable homes integrated into market rate neighborhoods in Chapel Hill and Carrboro. We estimate the market value of these community assets to be more than \$40 million.

We very much appreciate your support. We are more than happy to answer any questions you might have. Thank you for your consideration.

