# FAQ

Bill 20-604: Affordable Homeownership Preservation and Equity Accumulation Amendment

Act of 2013

This legislation would reduce resale restrictions in distressed parts of the District from 15 to 5 years while adding a recapture and recycle model to recoup city funds for the production of more affordable units. A large working group of stakeholders began meeting in 2010 to discuss affordable ownership development and policy – a previous version of the current bill was drafted in 2012 as a result of those efforts. The Coalition for Nonprofit Housing and Economic Development came to an internal consensus on the bill. Changes were negotiated between CNHED, the DC Fiscal Policy Institute, and others after the bill was introduced in late 2013. The Affordable Homeownership Preservation and Equity Accumulation Amendment Act of 2013 would affect a small portion of affordable housing development in DC and fits very specialized and important needs.

**What is the current policy?**

Under current agency policy, any affordable ownership development using Housing Production Trust Fund dollars is required to have at least a 15 year resale restriction. During the restricted period, owners are not able to take out an equity loan and may only sell to someone in their income category. After 15 years, the District typically forgives the Trust Fund subsidy and at that time the owner may use their home for an equity loan or sold on the open market. This policy was enacted in the mid-2000s. Prior to that, the Trust Fund did not stipulate a resale restricted period. Current law actually requires a lower 10 year affordability restriction in some areas, but that provision has been ignored. This policy has been particularly difficult on the development and marketing of affordable units in distressed areas.

**How has current policy contributed to stalling affordable homeownership development?**

With the current policy, even nonprofit developers who are mission driven to produce the most affordable units possible are unable to move forward with affordable ownership projects in areas that need them most. Pipelines are stalled and new projects, most of which require public subsidy, are not easily put structured. The 15 year resale restriction has proven to be an impediment to sales in these areas (completing sales can take up to 2 years) which increases uncertainty in an already uncertain business. It is difficult to convince lower income buyers to purchase a restricted unit when they could find something at a reasonably comparable price without a restriction; a first home it is their biggest investment and they are appropriately cautious. Unfortunately, those comparably priced homes are not in comparable condition and can have large unexpected maintenance costs. If resale restrictions are reduced to five years in distressed areas, much needed production of quality housing will move forward in neighborhoods where it is not currently happening and District residents will become homebuyers – taking the place of all-cash investors looking for property to hold vacant and flip in the future.

### Is there disagreement among stakeholders?

CNHED members who have developed affordable ownership housing in the District for decades agree there is a need for changes to affordable ownership policy in distressed areas. In negotiations with other stakeholders there was one outstanding issue – the definition of a distressed neighborhood. At a hearing on this legislation, Councilmembers expressed a preference for the simplest possible definition. CNHED agrees that any changes going forward should be to simplify the definition.

### How would "distressed neighborhoods" be defined?

Distressed neighborhoods will be determined by the Mayor, using a map analyzing the District at the census tract level. Specific metrics identifying these areas are to be determined.

### Is it true that affordable buyers in DC will flip properties if there is a five year resale restriction?

Manna and Habitat for Humanity of Washington DC, each with over 30 years of experience, know that 80% to 90% of their buyers are still living in their Trust Fund subsidized homes. Manna has developments in Logan Circle, Shaw and LeDroit Park where 90% of the original owners are still there after 15-25 years. These households are not speculators; some have worked over 2 years to get ready to own their homes, and in addition to it being the most important investment anyone in their family has ever made, they also become more deeply rooted and involved in their communities.

### Can lower income owners have access to their equity while living in their homes during a restricted affordability period?

Not under the current policy. This is a key part of the new legislation, and one aspect of the proposed 5 year restriction that makes it easier for buyers to commit to a property in a distressed neighborhood. A home is the largest asset that most Americans, especially lower income households, have. As a number of witnesses testified before Council, many affordable buyers have done amazing things with their equity – sent themselves and children to college, started small businesses, helped their children put downpayments on homes, saved their homes from foreclosure. These families have been able to get to another level of self-sufficiency as a result of access to their equity. Some very low income buyers have broken cycles of generational poverty and dependence on government assistance.

### How does the recycle-recapture model work?

District subsidies have typically been forgiven over time, which means that the full of amount of the subsidy goes to the buyer after a set period of years. Adding a recapture model to all affordable ownership developments provides a way for these subsidies and any other pre-existing equity to be returned to the Trust Fund if someone sells. This is a new, positive change to what is currently on the books. And the great thing about the recapture provision is that it allows for owners to tap into their equity **and** the District gets its investment back in the future. It also provides a way, particularly for lower income owners whose incomes do not increase as quickly, to have a chance at affording a downpayment on the open market if they need to move.

**Some stakeholders are promoting shared equity as the only model for affordable homeownership development in DC. Why is this model problematic for lower income buyers?**

In a city where appreciation far exceeds income increases, particularly in regard to lower income buyers, there is a real concern about creating one-time homeowners who must cycle back to renting if they need to sell. Shared equity, specifically the model that gives homeowners access to 25% of their home's appreciation when they sell, was considered by the bill's drafters. They decided it wasn't the best model to implement across the District, especially for lower income homeowners. In the District, home price increases have been between 4% and 8% annually. A 25% shared equity covenant would give an owner access to only 1 to 2%, which is not enough to allow the homeowner to purchase again, should they need to sell their current home. Suppose an affordable buyer purchases a District subsidized home for $200K that is worth $300K on the market at the time it is sold. If the home appreciates at 5% annually, it would be worth $488K after ten years. Under shared equity, the portion an owner would receive is $47,000, but after paying closing costs (3%) and realtor fees (5%), they would be lucky to walk away with $15K. Particularly in DC and with lower-income buyers, this is not enough to move on to another homeownership opportunity. The research that some have cited by Brett Theodos of the Urban Institute does not include data on lower income buyers in high priced markets being able to move into the open market, because that data does not exist.

**How do nearby jurisdictions address this issue?**

Some stakeholders have suggested Montgomery County as a model for DC to follow, which uses 10 year to 30 year restrictions. There are vast differences in the dynamics between Montgomery County and the District of Columbia. The economic and racial makeup are different; the homeownership rate is much higher in Montgomery County (68.2% vs. 42.4%); the poverty rate is much lower (6.5% compared to 18.5%); and the county has always had more land than the District (491.25 square miles compared to 64 square miles). Currently, affordable owners in Montgomery County are having problems finding buyers in their income category who will purchase their homes. As a result, the county has been allowing the original owners to sell to people in higher income categories. Clearly, Montgomery County's model is built for a very different jurisdiction and still has major challenges.

This bill is a good compromise. It will affect a very small portion of affordable housing development in DC, as only 6% of the Trust Fund typically goes toward building ownership housing. The input of practitioners who develop affordable homes in distressed parts of the District and work with lower income buyers needs to be given great weight, as does the input of lower income buyers themselves. Under the status quo, we are losing economic and racial diversity to Prince George's County and elsewhere as low income homebuyers have few options to become homeowners in the District. We need to pass this legislation now and get to work.