

Joint Task Force Addressing Racial Disparities in Home Ownership

Models for Asset Building Work Group - Focus Area #3 Policy Option Proposals – August 9, 2022

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Joint Task Force Addressing Racial Disparities in Home Ownership Models for Asset Building Work Group - Focus Area #3

Incentivizing Homeownership Development Proposal

Proposal

The work group proposes three initiatives to incentivize homeownership development.

1. Homeownership Development Subsidy

Funding

Allocate \$100 million each biennium for homeownership development with the goal to build 500 homes in the 2023-2025 biennium with a maximum subsidy of up to \$200,000 per home.

Identify dedicated funding sources, which could include other bonds, Lottery Funds, or other sources. Existing Local Innovation and Fast Track (LIFT) or other loan financing resources could be part of this total funding pool. The use of a percentage of the Oregon Affordable Housing Tax Credit (OAHTC) program for homeownership development should also be explored.

Programmatic Considerations

- Set the homeownership subsidy at up to \$200,000 per home and allow Oregon Housing and Community Services (OHCS) to administer multiple funding sources to reach that subsidy level.
- Administer funding through the infrastructure that OHCS is currently developing for homeownership development.
- Give preference to nonprofit or mission-centered developers. Nonprofit and for-profit developers are both eligible.
- Recommend selling homes subsidized by these resources, to the extent possible by state and federal law, to people of color and the existing OHCS focus populations:
 - household of four or more people;
 - household member with a disability;
 - front-end ratio of 28 percent or higher; and/or
 - sole head of household with at least one eligible dependent residing in the house.
- Make a larger subsidy available for projects intended for lower income households as determined by county average median income (AMI) or state average AMI.

2. Pre-Development Funding Pool

The work group would like OHCS to support pre-development funding through one of the following options:

- **Option 1:** Establish a separate pool of funding (amount TBD) to be made available to nonprofit developers who are building homes for homeownership. The amount of funding available to nonprofit developers should depend on the project.
- **Option 2:** Allow a portion of the homeownership development subsidy in #1 above, up to 15 percent of award, to be accessed up front for pre-development costs and would not be reimbursable.

3. Land Availability

Recommend that OHCS improve their existing [Land Acquisition Revolving Loan Program](#) to improve its usability and make more funding available for land acquisition.

Work group members suggested the following:

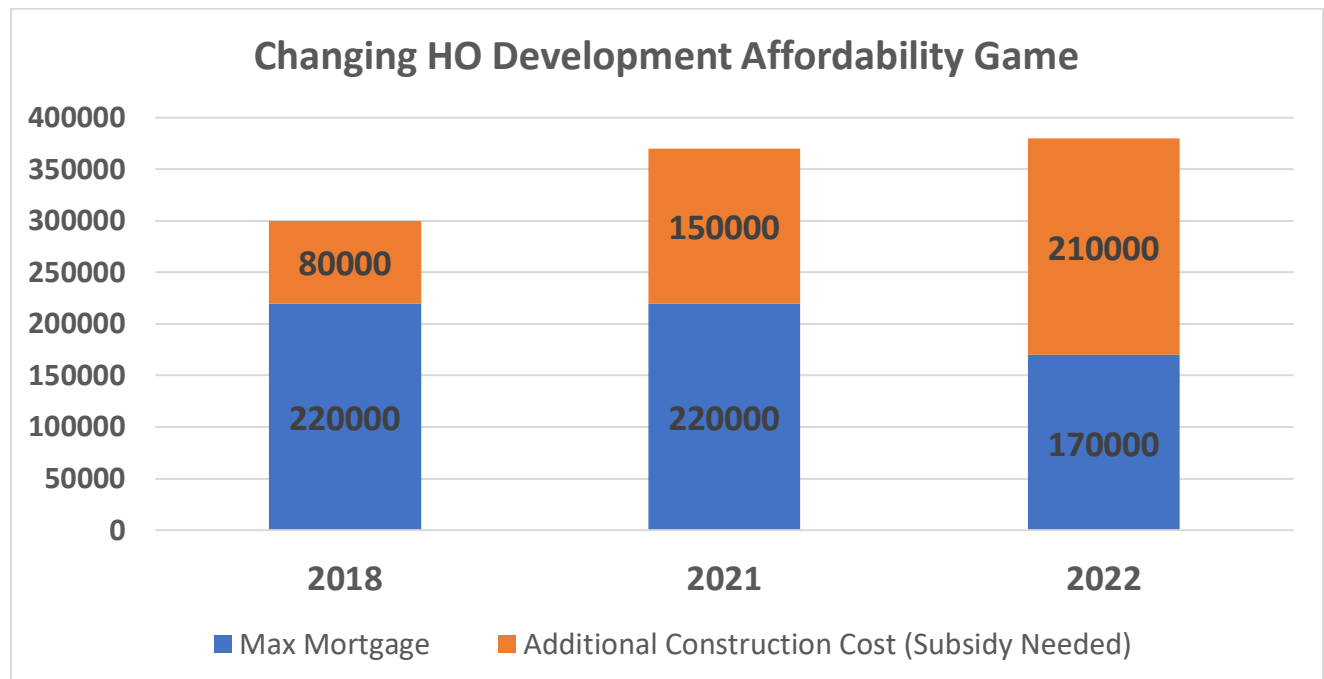
- A land acquisition loan fund of \$30-50 million for the 2023-2025 biennium. At current prices of \$150,000 for a lot, \$30 million would support the purchase of 200 parcels per biennium.
- Zero-interest loans of 3-5 years to nonprofit homeownership development organizations for land acquisition.

Background

To be drafted

Problem Statement

The approximate buying power of a family with \$50,000 in annual income and a maximum monthly payment of \$1,250 is \$220,000 at 3 percent interest and \$170,000 at 5.7 percent interest.



Source and Data: Emily Reiman, DevNW

Joint Task Force Addressing Racial Disparities in Home Ownership Models for Asset Building Work Group - Focus Area #3

Homeownership Assistance Innovation Pilot Program Proposal

Proposal

Allocate funding to Oregon Housing and Community Services (OHCS) to invest in two to three community-based, innovative models for increasing homeownership rates for communities of color in Oregon. Funding is intended for projects and proposed solutions that address barriers to homeownership in ways not addressed by the other recommendations from the Joint Task Force on Addressing Racial Disparities in Home Ownership (Task Force). These solution models are defined by the specific community and could involve partnerships between homeownership organizations, culturally specific organizations, financial institutions, foundations, government, workforce, health, childcare, or other community partners. Successful pilot programs should also leverage other private or public funding, not just downpayment assistance or state funding for homeownership centers.

Discussion questions

- *How much funding should be made available for each pilot program?*
- *Should the Task Force set criteria or measurable goals and outcomes?*

Background

In 2019, the first Joint Task Force on Addressing Racial Disparities in Home Ownership recommended the following be done by a future work group for the extended Joint Task Force on Addressing Racial Disparities in Home Ownership.

Communities of Color Homeownership Pilot Program. *The Task Force will convene a work group of Task Force members, homeownership organizations, Oregon Housing and Community Services (OHCS), and culturally specific organizations to identify options and develop recommended pilot programs to address racial disparities in homeownership. This recommendation addresses the Finances, Historical, and Racial Wealth Gap barriers.*

Problem Statement

To be drafted by the Legislative Policy and Research Office (LPRO).

Task Force Addressing Racial Disparities in Home Ownership Models for Asset Building Work Group - Focus Area #3

Building Assets Through Home Equity Proposal

Proposal

Because community land trust (CLT) models limit the equity gained from the increased home value through price appreciation, in exchange for the secondary community benefit of long-term affordability, the Task Force on Addressing Racial Disparities in Home Ownership could recommend the development of an option to boost or fast-track the equity gained through the mortgage principal a homebuyer pays down on the mortgage over time by subsidizing the interest rates on 15-year or 20-year mortgages.

Funding Questions

- *How much funding is needed to subsidize interest rates and to what level?*
- *Funding source?*

Programmatic Considerations

- Borrowers would also be eligible for other homeownership assistance funds.
- Discussion Questions:
 - *How would the mortgage product be administered; by Oregon Housing and Community Services (OHCS), financial institutions, or both?*
 - *Who is eligible to receive subsidized interest rate loans and should this only be paired with buyers of CLT-developed homes?*
 - *Should there be a ceiling for how much interest rate buy-down is allowed?*
 - *What are the measurable goals or outcomes of the program in five or 10 years?*

Background

Using the example of payment on a \$200,000 mortgage, the table below shows the interest rate buy-down needed to get to the same monthly payment (roughly \$1,385) at each length of the mortgage, and the resulting change in equity gained through principal repayment. The increase in principal paid down after 10 years in a 20-year mortgage is \$48,712, which is almost the same as the full value of market-rate price appreciation.

Table 1: Interest Rate Buy-Down – Equity Gains Compared to Appreciation

Mortgage Length	Interest Rate	Equity from Principal Paid Down At...			Equity from Average 2.2%* Annual Appreciation		
		5 Years	10 Years	15 Years	5 Years	10 Years	15 Years
30-Year	5.7	\$14,595	\$33,989	\$59,762	\$22,989	\$48,621	\$77,200
20-Year	3.5	\$37,062	\$82,701	\$136,239	\$22,989	\$48,621	\$77,200
15-Year	0.6	\$64,348	\$130,988	\$200,000	\$22,989	\$48,621	\$77,200

Source and Data: Emily Reiman, DevNW

**The best 30-year period for appreciation was 1976-2005, averaging 2.2% real price appreciation*

Problem Statement
To be drafted by LPRO