



June 6, 2013

Aaron Gornstein, Undersecretary
Massachusetts Department of Housing and Community Development
100 Cambridge Street, Suite 300
Boston, MA 02114

RE: MACDC Feedback on DHCD Project-Based Homeownership

Dear Aaron:

I am writing to offer MACDC's feedback on the draft document entitled "DHCD Support for Project-Based Homeownership: May, 2013" that was distributed at the last Homeownership Advisory Committee Meeting.

First, let me say, that MACDC is pleased that DHCD is planning to reopen the funding window for homeownership development projects. This was something we discussed early in your tenure when you met with the MACDC board in Worcester and it is great to see it moving forward now. We also concur with much of what DHCD is proposing, including creating two separate funding categories with criteria based on market conditions, DHCD's recognition of the need to revitalize Gateway Cities and distressed neighborhoods, and its recognition that homebuyer counseling is essential.

We appreciate DHCD's proposal to set aside \$4 million in funding from the Affordable Housing Trust Fund and the Housing Stabilization Fund for Project-Based Homeownership Assistance. We request that DHCD set aside an additional \$2 million, contingent upon the quality of the pre-applications received, so that up to \$6 million in total can be used for homeownership. This additional set aside will provide DHCD with the ability to fund an additional 30 to 40 homes if the quality and projected impact of the proposals justifies the additional funding. A program funded at this level would still leave the vast majority of DHCD funds available for rental housing units.

We offer additional feedback on specific provisions in DHCD's draft proposal, as follows.

Funding Categories:

At the Homeownership Advisory Committee meeting on May 23rd, DHCD indicated that the category labeled "Gateway Cities" was intended to include distressed neighborhoods, and not be limited to Gateway Cities. We encourage DHCD to define criteria for neighborhoods that need revitalization and are eligible for funding under this category (one approach would be to prioritize neighborhoods that have been hard hit by foreclosure).

MACDC also continues to object to the use of the term "Areas of Opportunity" for reasons we have articulated on several previous occasions. We believe that every community in Massachusetts offers unique assets and opportunities and none should be disparaged implicitly or

explicitly by DHCD. In a recent meeting with Secretary Bialecki he was touting the virtues of several communities north of Boston like Revere, Chelsea and Winthrop in anticipation of his recent tour of that region. These are also places of opportunity. The relevant issue in the context of this program is the strength of the homeownership market and therefore we recommend that DHCD use a term like “strong market” areas instead. This can be evaluated objectively and avoids negative stereotyping of our urban areas.

Development Team Qualifications:

We support the requirement that sponsors have demonstrated capacity and experience. We propose, additionally, that sponsors demonstrate that they have experience in providing homeownership counseling or have an established relationship with an entity certified to provide such counseling.

Family Homeownership Housing in “Areas of Opportunity”:

In general, we believe the criteria proposed are reasonable, with a few exceptions:

- **Minimum Project Size:** We believe that the 15-unit project size is not suitable for all communities, particularly more rural communities, and suggest that the minimum project size be reduced to 10 units.
- **Market Study Requirement:** We request that DHCD require the full market study at the point of application, and that at the pre-application stage it require a demonstration of the suitability of the market that is less costly. This way, projects that are otherwise not ready to proceed to full application will not have to invest in a full market study at more than one time prior to full application submission.
- **Maximum Amount of Developer Overhead/Fee per Project:** In recognition of the smaller size of homeownership projects (relative to rental projects) we propose that the limit be increased from 12% to 15%.

Family Homeownership Housing in Gateway Cities (Distressed Neighborhoods):

- **Project Types:** We think it is reasonable for DHCD to allow condo units only in “Areas of Opportunity” and only if certain market conditions are present. However, in distressed neighborhoods, DHCD should allow three-family homes as well as single family homes or duplexes, provided that “market conditions indicate significant demand.” Furthermore, DHCD should allow new construction on infill sites, provided such development is covered by a well-defined neighborhood redevelopment plan.
- **Maximum Amount of DHCD Assistance per Affordable Unit:** In distressed neighborhoods, the maximum DHCD assistance should be \$75,000 per affordable unit, in recognition of the high rehab needs of properties crucial for neighborhood revitalization, and to the lower local match typically available in Gateway Cities (especially with recent cuts to HOME and CDBG). Subsidies in the NSP Program averaged just over \$60,000 per unit, so a

limit of \$75,000 per unit is not unreasonable or unprecedented, especially as the homeownership market recovers and acquisition prices go up.

- **Total Development Cost Per Unit:** We propose that, in assessing compliance with the \$199,000 TDC limit per affordable limit, that any demolition of buildings not suitable for rehabilitation not count against this TDC limit.
- **Mandatory Buyer Requirements:** The Deed Rider in distressed neighborhoods should be reflective of the market realities in such neighborhoods, and be less restrictive on the homebuyer than in “Areas of opportunity.” There is precedent for this in the 2008 Housing Bond Bill that set aside \$10 million in funds from the Housing Stabilization Program to support homeownership in weak market areas, including reducing the length of required affordability to ten years.

We encourage DHCD to use this statutory flexibility to modify the deed restrictions used in Gateway Cities and other weak market areas, in order to promote property improvements, enhance neighborhood stabilization goals, and promote wealth-building for low income families. DHCD should also consider, if allowed by the funding source, the more aggressive approach to encouraging investment in distressed neighborhoods utilized by the MA NSP Program, which substituted a modest 5-year recapture provision in lieu of a resale restriction.

- Finally, MACDC’s comments in the prior section on Market Study Requirement and Maximum Amount of Developer Fee per Project apply to projects in distressed neighborhoods as well.

We appreciate DHCD’s thoughtful approach to re-establishing funding for affordable homeownership projects. If you have any questions or want additional information, please contact me or MACDC’s Senior Policy Advocate Don Bianchi.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Kriesberg". The signature is fluid and cursive, with the first name "Joe" written in a larger, more prominent script than the last name "Kriesberg".

Joe Kriesberg, President and CEO

Cc: Kate Racer, DHCD
Jo Ann McGuirk, DHCD
Don Bianchi, MACDC