AN OVERVIEW OF BEST PRACTICES FOR AFFORDABLE SINGLE-FAMILY HOUSING DEVELOPMENT AND FINANCE

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Chase Schulte

FELS INSTITUTE OF GOVERNMENT MPA CAPSTONE REPORT

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Executive Summary

The development of affordable single-family homes for homeownership opportunities is a complicated and expensive endeavor. As Cinnaire begins to ramp up this line of business, expertise is needed so that our efforts are impactful and efficient. This report seeks to gather wisdom from practitioners with years of experience in this field and literature available from grant making agencies such as the Department of Housing and Urban Development. This research informed some key findings, which ultimately resulted in four main recommendations for Cinnaire related to affordable single-family homeownership development, finance, and advocacy.

Key Findings

Finding #1	Incremental single-family development utilizing public subsidy is often the first step in revitalizing a neighborhood's housing market.
Finding #2	Public subsidy resources can be effectively used as financing mechanisms for affordable single-family housing.
Finding #3	Local assessors and appraisers need to support the mission of affordable single-family development and neighborhood revitalization by community-based organizations.
Finding #4	Land bank organizations should prioritize land for affordable single-family housing development.
Finding #5	Alternative affordable housing development models can be complimentary to the traditional incremental approach.

Recommendations & Implementation Strategies

Recommendation	Implementation Strategies for Cinnaire & Affiliates
#1: Utilize public subsidy and philanthropy for development costs associated with affordable single-family housing development.	Engage directly in the subsidized development of affordable single-family housing, but in more concentrated efforts.
#2: Utilize public subsidy and philanthropy as a financing tool.	Create or facilitate the creation of first-mortgage loan programs for LI homebuyers that do not require PMI like FHA and conventional loans. Purchase new or existing homes, developed by a private third-party, with public subsidy to mark down to affordable. Utilize public subsidy or philanthropy as a source of down payment assistance for LI homebuyers.

#3: Address market and affordability issues through state and local policy advocacy and education.	Advocate for changes to how local governments assess the value of homes in distressed neighborhoods. Educate or facilitate the education of appraisal firms so that they understand the neighborhood market and community development as a whole to achieve more favorable appraisal values. Advocate for CBOs and other developers to have affordable, priority access to publicly owned property such as vacant lots or vacant buildings.
#4: Create or facilitate the development of alternative affordable single-family housing models.	Create or facilitate the creation of Community Land Trusts to preserve affordability. Consider alternative construction practices in an effort to reduce costs or increase availability of housing available to LI buyers.

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Introduction

Homeownership is growing increasingly unaffordable, a dream that seems out of reach for many Americans, especially non-white Americans. According to a report issued in late 2019, “average wage earners can't afford to buy a home in 344 of 486 counties, or 71% of the U.S.”[1] In a report from early 2020 by the Brookings Institution, the average net worth of a typical white family in 2016 was $171,000, a Hispanic family just over $20,000, and a Black family just over $17,000, mostly due to intergenerational transfers of wealth.[2] According to the Urban Institute, in 2019, Black median household income was $43,862, Hispanic median income was $55,658, and white median income was $71,644.[3] That same report identified that homeownership has long been the most important way to build wealth for non-white families. In fact, housing equity makes up nearly 60 percent of total net worth for Black homeowners, compared with 43 percent of total net worth for white homeowners.[4]

Additionally, in most cases, single-family housing development is not a cheap endeavor: sales prices are a function of land and construction costs, which are informed by the market in which a home is located. In strong housing markets, the cost to develop a quality product and earn even a modest profit can price out most, if not all, low or average wage earners. In weak housing markets, the cost to develop a home is not justified by the sales price that the market will bear. The development of affordable single-family homeownership units almost always requires subsidy, typically in the form of grants to the developer or down-payment assistance to the buyer. However, the subsidy available to engage in meaningful development is limited, leaving many would-be buyers stuck renting.

In order to close the racial wealth gap, non-white families must have greater access to affordable homeownership opportunities. Non-profit and for-profit, funders, developers and government agencies involved with community development need to deploy their limited grant resources in the most effective way possible in order to provide greater access to affordable homeownership opportunities. **In an effort to address these inequities, this paper will provide an overview of best practices related to affordable single-family housing development, gathered through interviews with practitioners, and recommendations for Cinnaire Corporation and its affiliates to take to further advance their work in this field.**

[1] https://www.attomdata.com/news/market-trends/home-sales-prices/attom-data-solutions-q4-2019-home-affordability-index/
[2] https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/
[3] https://www.urban.org/research/publication/closing-gaps-building-black-wealth-through-homeownership/view/full_report
[4] https://www.urban.org/research/publication/closing-gaps-building-black-wealth-through-homeownership/view/full_report

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Background

Cinnaire Corporation (Cinnaire) is a full-service community development financial partner that supports community stabilization and economic development by developing and nurturing partnerships with investors and mission-focused organizations. Cinnaire provides creative loans, investments, and best-in-class services to partners. “Cinnaire” is the blending of two Celtic words meaning “to lead with care.”

Footprint: Cinnaire’s geographic footprint includes Michigan, Indiana, Illinois, Wisconsin, Minnesota, Pennsylvania, Delaware, New Jersey, and Maryland. Cinnaire has identified three **Priority Cities** – Detroit, MI, Wilmington, DE and La Crosse, WI – to purposefully build community development capacity by focusing resources to help local partners advance neighborhood revitalization objectives and achieve transformational change.

Focus: While Cinnaire is a multi-faceted organization with many initiatives, lines of business, and areas of expertise, this paper will focus primarily on the work of **Cinnaire Solutions** (Solutions), an affiliated non-profit affordable housing development company, and **Cinnaire Lending** (Lending), an affiliated non-profit, certified Community Development Financial Institution (CDFI) community development project lender. Both Solutions and Lending are beginning direct affordable single-family housing development or creating single-family lending programs with a focus on racial equity, and so this paper is meant to assist with these efforts.

Cinnaire Lending: As a certified Community Development Financial Institution (CDFI), Cinnaire Lending has the ability to access a range of financial resources and provide creative lending options to support both housing and community development work. CDFIs are private financial institutions dedicated to delivering responsible, affordable lending to help low-in- come, low-wealth, and other disadvantaged people and communities join the economic main stream. Lending’s low-cost capital provides loans to mission-driven organizations seeking to launch social enterprises and to support community development projects, ranging from recovery centers and community kitchens to multi-family housing projects and small businesses. Lending is able to fill gaps and provide access to financial opportunities to areas underserved by traditional banking institutions.

Cinnaire Solutions: Cinnaire Solutions serves as a strategic partner and co-developer to help developers build their portfolios and support community revitalization in underserved neighborhoods. By providing technical assistance, resources, education, development expertise and capacity to undercapitalized and emerging for – and non-profit development groups, Solutions is often the catalyst that brings challenging projects to completion. The team has a depth of experience in historic adaptive reuse, acquisitions and rehabilitation, mixed-use development, single family homeownership, commercial development and market rate developments.

Objectives: This paper has two primary objectives:

1. **Research current trends and best practices for affordable single-family homeownership development and finance in depressed and/or emerging markets.**
2. **Develop a toolkit for Cinnaire Solutions, Cinnaire Lending, and Cinnaire as a whole to use to develop, finance, and advocate for affordable single-family homeownership opportunities.**

This report should primarily be used by Cinnaire and its affiliates to guide their decision making. Other real estate developers, lenders, and community-based organizations may also use the report to inform their work. Other organizations and the general public may use this report for informational purposes. It should be noted that the findings and recommendations discussed primarily focus on specific issues related to affordable housing finance, and policy issues are touched on only as related to these financing issues. Greater policy concerns such as zoning, land use and Master Plan development are certainly an issue related to affordable housing development, but that is outside of the scope of this report.

This report is organized into the following sections:

1. **Affordable Housing Development at a Glance**: an overview of the critical issues related to affordable single family housing development and finance.
2. **Methodology:** an overview of the tools used to develop this report.
3. **Limitations:** a brief discussion of the limitations involved with this report.
4. **Key Findings:** detailed descriptions of the key findings discovered during the interviews and literature review.
5. **Recommendations:** some recommendations and implementation strategies for Cinnaire based on the key findings.

Definitions

Affordable/Affordable Housing – In this paper, affordable housing is defined as housing that is affordable to households making 80% or less of the Area Median Income (AMI). Monthly housing payments are limited to 30% of a household's income based on HUD guidelines.

Area Median Income (AMI) – The Area Median Income (AMI) is the midpoint of a region's income distribution – half of families in a region earn more than the median and half earn less than the median. Families making 80% of the AMI make 80% of that midpoint figure.[5]

Community Based Organization (CBO) – a public or private nonprofit organization of demonstrated effectiveness that— (A) is representative of a community or significant segments of a community; and (B) provides educational or related services to individuals in the community.[6] *Note: This paper uses the term "Community Based Organization (CBO)" when referring to nonprofit affordable housing developers since it is a more general term, and not all nonprofit affordable housing developers are a "Community Development Corporation (CDC)".*

Community Development Block Grant (CDBG) – The Community Development Block Grant (CDBG) Program provides annual grants on a formula basis to states, cities, and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. CDBG is distributed and administered by HUD.[7]

Community Development Corporation (CDC) – Community development corporations (CDCs) are 501(c)(3) non-profit organizations that are created to support and revitalize communities, especially those that are impoverished or struggling. CDCs often deal with the development of affordable housing. They can also be involved in a wide range of community services that meet local needs such as education, job training, healthcare, commercial development, and other social programs.[8]

Community Development Financial Institution (CDFI) – CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers. CDFIs are helping families finance their first homes, supporting community residents starting businesses, and investing in local health centers, schools, or community centers. CDFIs strive to foster economic opportunity and revitalize neighborhoods.[9]

HOME Investment Partnership Program (HOME) – The HOME program provides grants to state and local governments to create affordable housing for low-income households. HOME is distributed and administered by HUD.[10]

Housing and Urban Development (HUD) – The Department of Housing and Urban Development, a Cabinet department in the executive branch of the U.S. federal government.

Low Income (LI) – According to HUD, Low Income is considered the higher of 80 percent of the area median family income (AMI) or 80 percent of the State non-metropolitan median family level.[11]

Land Bank Organization – Land banks are governmental entities or nonprofit corporations that are focused on the conversion of vacant, abandoned, and tax delinquent properties into productive use.[12] *Note: This paper uses the term "Land Bank Organization" when referring generally to the entities that accept property for disposition since "Land Bank" could be used as a verb when referring to the act of accumulating land.*

Single-Family Home – a structure maintained and used as a single dwelling unit. Both detached homes and rowhomes can be single-family homes.[13]

Sources of Funds – The money that is available to finance a project. This can include, but is not limited to, grants, equity, and loans.

Uses of Funds – The costs required to complete the project. This can include, but is not limited to, hard construction costs, soft construction costs, architect fees, financing fees, and developer fees.

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Affordable Single-Family Housing Development at a Glance

In order to illustrate the challenges of building affordable single-family homes, I've provided an example below. The sales price, grant amount, and construction costs are generally in line with what a community-based organization (CBO) could reasonably expect to see when developing single-family homes in Wilmington, DE or Detroit, MI, according to Cinnaire Solutions and Cinnaire Lending staff. However, there could be significant variations from project to project so these numbers should not be considered to be perfect, and should only be used in the context of this exercise.

Wilmington, DE (19801): According to real estate brokerage and analytics firm Redfin, median home sales prices in zip code 19801, where Cinnaire Solutions is actively developing homes, varied from $65,000 to $158,500 from March 2020 to March 2021. The wide variation in price is likely due to a limited number of sales occurring within this area.

Detroit, MI (48207): According to real estate brokerage and analytics firm Redfin, median home sales prices in zip code 48207, where Cinnaire Lending is actively financing the development of homes, was $95,000 in March 2021. Data for previous months was not available.

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[5] https://metrocouncil.org/Handbook/Files/Resources/Fact-Sheet/HOUSING/Area-Median-Income-and-Housing-Affordability.aspx
[6] https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=20-USC-1991540508-1493090985&term_occur=2&term_src=title:20:chapter:70:subchapter:I:section:6303b
[7] https://www.hudexchange.info/programs/cdbg/
[8] https://www.naceda.org/index.php?option=com_dailyplanetblog&view=entry&category=bright-ideas&id=25%3Awhat-is-a-community-development-corporation-&Itemid=171
[9] https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi_infographic_v08a.pdf
[10] https://www.hudexchange.info/programs/home/
[11] https://www.huduser.gov/portal/datasets/il/il2020/2020ILCalc3080.odn
[12] https://www.communityprogress.net/land-banking-faq-pages-449.php#What%20is%20a%20land%20bank?
[13] https://www.realtor.com/advice/buy/what-is-a-single-family-home/

Example 1: The Financing Gap Illustrated

GROSS SALES REVENUE	
Realistic Sales Price	$ 110,000.00
USES OF FUNDS	
Acquisition Costs	$ 25,000.00
Construction Costs	$ 120,000.00
Holding Costs	$ 3,125.00
Interest on Loan	$ 3,781.25
Financing Costs	$ 1,600.00
Settlement Costs	$ 4,400.00
Sales Commission	$ 6,600.00
Developer's Fee	$ 12,000.00
TOTAL	**$ 176,506.25**
SOURCES OF FUNDS	
Sales Proceeds	$ 110,000.00
Public Subsidy	$ -
Other	$ -
TOTAL	**$ 110,000.00**
SOURCES & USES	
Total Sources	$ 110,000.00
Total Uses	$ 176,506.25
(Gap)	**$ (66,506.25)**

In this example, it costs over $176,000 to acquire, rehabilitate, and sell a home. In order to maintain affordability for a buyer and stay in line with market pricing, the home can only be sold for $110,000. This results in what is known as a “financing gap” or simply, “gap,” of over $66,000. The economics of this project don’t add up, and this project would not occur on its own without public subsidy to fill the financing gap. *Note: Typically, a housing developer would borrow a construction loan that is repaid with the sales proceeds, or fund the construction with its own cash reserves. This mechanism is not shown to simplify the example.*

Example 2: Development With Subsidy

GROSS SALES REVENUE	
Realistic Sales Price	$ 110,000.00
USES OF FUNDS	
Acquisition Costs	$ 25,000.00
Construction Costs	$ 120,000.00
Holding Costs	$ 3,125.00
Interest on Loan	$ 3,781.25
Financing Costs	$ 1,600.00
Settlement Costs	$ 4,400.00
Sales Commission	$ 6,600.00
Developer's Fee	$ 12,000.00
TOTAL	**$ 176,506.25**
SOURCES OF FUNDS	
Sales Proceeds	$ 110,000.00
Public Subsidy	$ 66,506.25
Other	$ -
TOTAL	**$ 176,506.25**
SOURCES & USES	
Total Sources	$ 176,506.25
Total Uses	$ 176,506.25
(Gap)	**$ -**

In this example, a CBO is developing the same project as above, but they’ve secured a grant to fill the financing gap and complete the project. The CBO spent just over $66,000 of this grant on this home. The money cannot be paid back since the sales price will not support it. In this scenario, the economics of the project work. The CBO can develop the project and sell it an affordable price to a low income (LI) household.

Example 3: Additional Subsidy

GROSS SALES REVENUE	
Discounted Sales Price	$ 90,000.00
USES OF FUNDS	
Acquisition Costs	$ 25,000.00
Construction Costs	$ 120,000.00
Holding Costs	$ 3,125.00
Interest on Loan	$ 3,093.75
Financing Costs	$ 1,400.00
Settlement Costs	$ 3,600.00
Sales Commission	$ 5,400.00
Developer's Fee	$ 12,000.00
TOTAL	**$ 173,618.75**
SOURCES OF FUNDS	
Sales Proceeds	$ 90,000.00
Public Subsidy	$ 83,618.75
Other	$ -
TOTAL	**$ 173,618.75**
SOURCES & USES	
Total Sources	$ 173,618.75
Total Uses	$ 173,618.75
(Gap)	**$ -**

This example shows a scenario similar to the one above, but illustrates the impact a higher grant amount can have on the price of the home. The change in total cost (uses) is due to decreased sales expenses that are a percentage of the sales amount. If the CBO spends just over $83,000 of their grant money on this home, it can reduce the sales price by $20,000, resulting in a home that is deeply affordable. This means that households with very low income could afford to buy this home.

While the scenarios above are an oversimplification of how the construction of affordable single-family housing is built, nearly all homes intended for affordable buyers in this country have a financing gap that requires grant subsidy. In order to develop deeply affordable housing, more grant subsidy is required. Additionally, these scenarios do not explore “value-engineering” or, decreasing the cost of rehabilitation by reducing the scope of work, because most grant sources, such as CDBG and HOME, require minimum levels of rehabilitation that ensure a home is a safe and long-lasting for the eventual buyer.

Methodology

A primary purpose of this paper was to gather information on current trends and best practices for affordable single-family homeownership development and finance in depressed and/or emerging markets. To do this, I interviewed five individuals from organizations that are directly involved with financing or development of affordable single-family housing. The interviewees were selected because they are either directly on the ground in the focus area geography and/or are recognized as leaders in their field, either locally or nationally. The five interviewees are listed below.

After interviewing all of the practitioners, I extracted common findings that appeared across interviews. I also utilized online resources and peer reviewed literature where possible to further corroborate and expand on these common findings. These data points combined resulted in the key findings detailed later on in this paper and ultimately informed the recommendations I developed.

Interviewee	Organization
Ben Greenberg, Director of Lending, Housing Partnerships Network*	Housing Partnership Network (HPN) is an award-winning business collaborative of 100 of the nation's leading affordable housing and community development nonprofits. HPN facilitates peer-to-peer learning and promotes policy and practice that is based on the proven experience of some of the nation's most successful nonprofits. HPN provides loan capital to nonprofit organizations and CDFIs and maintains an AA Aeris rating.[14]
Ray Sacciomandi, Chief Operating Officer, Wilmington Neighborhood Conservancy Land Bank*	The Wilmington Neighborhood Conservancy Land Bank exists to facilitate the return of Wilmington's vacant, blighted and abandoned properties to productive use. The WNCLB accepts abandoned and tax delinquent land and disposes it to residents, community-based organizations, and real estate developers for redevelopment.[15]
Evan Tester, Director of Lending, Renew Indianapolis	Renew Indianapolis/Edge Fund is recognized in Indianapolis and Indiana as a high-performing CDFI working in both depressed and emerging markets. Renew's CDFI, Edge Fund, is consistently awarded CDFI Fund, Capital Magnet Fund, CDBG, and HOME grants. Edge Fund was identified by the City of Indianapolis as a key implementer of CARES act funds in 2020-2021. Renew Indianapolis was awarded by the City of Indianapolis two multi-year funding CDBG/HOME commitments for two of the main neighborhoods it services.[16]
John Hay, Executive Director, Near East Area Renewal (NEAR)	NEAR, a CDC with a service area centered on the Near East neighborhoods of Indianapolis, focuses primarily on affordable housing, utilizing HOME and other public subsidy programs to build or renovate homes for sale. NEAR is the Near East community's leader in residential development, from

14 https://housingpartnership.net
15 https://www.wilmingtonlandbank.org
16 https://renewindy.org

	renovating historic homes to developing affordable housing opportunities.[17]
Elizabeth Frantz, Director and Market Leader, Lending, The Reinvestment Fund	The Reinvestment Fund (TRF) is a mission-driven financial institution. Since their inception in 1985, Reinvestment Fund has provided over $2.4 billion in financing to strengthen neighborhoods, scale social enterprises, and build resilient communities. TRF is a nationally recognized leader in CDFI lending and maintains an A+ rating from Standard & Poor and an AAA rating from Aeris.[18]

**Meetings with interviewees 1 & 2 were held before this project kicked off. These conversations focused on best practices and challenges around affordable and market rate single-family homeownership development generally, as a way to help Cinnaire Lending better develop underwriting criteria for these types of projects.

Limitations

The goal of this paper was to capture methods of affordable single-family housing development and finance that high performing practitioners are already using. As such, the limitations of this paper are primarily that the research conducted is merely an interview of best practices and data from interviews are qualitative and anecdotal. No analysis was done to determine if one particular method was better than any other, so nothing has been statistically proven. Additionally, best practices found in this report may not be fully applicable to all geographies or across time, and organizations should make decisions on what is best for their position and their community.

Key Findings

In this section I describe what was discovered during the interviews, detail any specific mechanisms in use, and also attempt to determine potential benefits and drawbacks of each where relevant.

Finding #1: Incremental single-family development utilizing public subsidy is often the first step in revitalizing a neighborhood's housing market. It is often up to nonprofit CBOs to "prime the pump" of a housing market in a neighborhood through subsidized development. This is typically done incrementally as a CBO applies for and is awarded HOME and CDBG grants to complete single-family projects over a number of years. Eventually, with proven sales and increasing home values, a neighborhood will become a viable development opportunity for private developers. Additionally, multiple

[17] http://www.nearindy.org
[18] https://www.reinvestment.com

interviewees indicated that concentrated development often attracted more attention to home sales, yielded higher sales prices, and generally had a greater impact on comprehensive revitalization efforts in a neighborhood. The definition of "concentrated" varies depending on who was asked, but it is generally considered to be occurring within the same block to a quarter mile radius.

Benefits: This traditional model of incremental subsidized development undertaken by CBOs has a number of benefits, including:

- A high degree of control over the quality of the home to ensure home systems are modern and efficient and the rehabilitation is more than adequate so it will be years before major repairs or replacements are needed.
- A high degree of control over the character of a home to ensure it fits into the architectural character of the neighborhood if that is a neighborhood or organizational priority.
- Being able to prioritize sales to LI buyers. Homes developed without public subsidy typically have no requirement to be sold to LI buyers, and are usually sold to the highest bidder.
- Potentially better relationships with existing residents due to the slower, incremental approach to neighborhood redevelopment versus rapid change brought on by scaled development.

Drawbacks: Incremental development utilizing public subsidy sources does also come with its drawbacks:

- It can be time consuming, requiring staff or consultants to not only oversee the construction of the homes, but also the compliance with various public subsidy program guidelines around eligible costs, reporting, and expense reimbursement procedures.
- The CBO takes on the majority of the risk. All development costs are borne by the CBO until public subsidy reimbursement and a successful sale, requiring them to put up their own cash or borrow money to complete a project. Public subsidy compliance also carries its own risk, and violation of any rules or regulations can result in expenses that are not reimbursable or could potentially require the repayment of unintentionally misused funds.
- It is slow. Incremental development completed with annual allocations of CDBG or HOME funds result in few homes completed per year, with neighborhood revitalization occurring at a glacial pace, if at all.
- When a home is typically developed with public subsidy, the subsidy requires that the home remain affordable for the "affordability period." This varies by the funding source and by how much public subsidy was invested in the property, but, usually, it ranges from 5-15 years. Once the affordability period expires, the homeowner can sell the house on the open market with no requirements to maintain affordability. When the home sells, the value of the subsidy is lost as cash equity to the family that

sold the home. While this is good for the family, and arguably a positive way to build wealth for them, losing affordable housing and the subsidy invested in it is bad for a community.

Note: Incremental housing development is often just the first step in revitalizing a neighborhood or community. Other investments must be made in the "fabric of the community" such as schools, health services, grocery, retail, restaurants, cafes, and other public infrastructure in order to truly revitalize a neighborhood.

Finding #2: **Public subsidy resources can be effectively used as financing mechanisms for affordable single-family housing.** This can come in the form of a developer financing, a first mortgage product similar to conventional and FHA mortgage loans, in the form of cash down payment assistance, or as a mechanism to purchase and mark down existing homes.

Developer Financing: A nonprofit lender, such as a CDFI, can use public subsidy as lending capital for developers to build or rehab affordable housing. Developers draw on this loan as needed for development costs related to a project. These loans are typically paid back two ways: with sales proceeds from the homes or grants that are available to a project after it is completed.

Benefits: Since nonprofit lenders are not beholden to profit-motivated shareholders and are run by mission minded boards, they often have more flexibility than traditional bank lenders and offer other intangible benefits to a borrower. This a common strategy to support startup minority developers.

- Nonprofit lenders can make loans to borrowers without a history of development experience if it is part of a mission driven program. This helps new, typically smaller, developers enter the housing development market and gain experience in order to become "bankable."
- Nonprofit lenders can offer lower interest rates than hard money lenders because they are not motivated by profit, which results in a cheaper loan to the borrower.
- Nonprofit lenders can loosen other underwriting criteria such as Loan to Value ratios, allowing the developer to borrow more money, requiring less cash to start a project.
- Nonprofit lenders can offer technical assistance such as developer training programs or in-depth deal structuring assistance that banks don't offer.
- In a worst-case scenario, if a project fails and a loan defaults, a nonprofit lender has the ability to be more flexible than a bank does. This means debt can be forgiven and the borrower can walk away with less damage done to their credit and reputation.

Drawbacks:

- Mission minded loans can be risky. New developers, developers with little cash in the bank, or both, can easily end up upside down on a project. Unexpected costs can blow up budgets and quickly make a project unprofitable. Loan requests must be fully vetted and technical assistance given throughout the life of a loan in order to mitigate as much risk as possible.
- Using scarce public subsidy resources for developer financing ultimately builds equity slower for a homeowner. Unlike utilizing subsidy as a grant to a project, a loan to a developer is expected to be repaid and the entire home will need to be financed by the buyer. The homeowner will not benefit from instant equity the same way they would if the home was completely or partially funded by grand subsidy.

First Mortgage Loans: A nonprofit lender can make flexible first mortgage loans to homebuyers utilizing public subsidy. CDBG and HOME funds can both be utilized as loan capital[19]. LI buyers are often required to purchase Private Mortgage Insurance (PMI) because they typically cannot afford a 20% down payment.[20] PMI is added on to the monthly mortgage payment, and ultimately either decreases the purchasing power a buyer has, or increases the monthly mortgage payment.

In this example, a homebuyer that takes out a $150,000 loan pays nearly $100 more a month when PMI is required, a meaningful difference for an LI household. In this example, a homebuyer would need to make over 9% more income, $44,247 instead of $40,494, in order to afford this monthly payment and be below the HUD mandated threshold of spending a maximum 30% of your annual income on housing payments.

Mortgage Details		
Total loan	$ 150,000	$ 150,000
PMI rate	0.00%	0.75%
Interest rate	3.50%	3.50%
Annual Payment Breakdown		
Annual insurance	$ 1,000	$ 1,001
Annual taxes	$ 2,993	$ 2,993
Mortgage payment	$ 8,156	$ 8,156
PMI	$ -	$ 1,125
Total annual payment	$ 12,148	$ 13,274
Total monthly payment	**$ 1,012**	**$ 1,106**

19 https://files.hudexchange.info/resources/documents/HOME-CDBGGuidebook.pdf
20 https://www.consumerfinance.gov/ask-cfpb/what-is-private-mortgage-insurance-en-122/

The difference can also be illustrated in terms of purchasing power:

In this example, a homebuyer that was targeting a total monthly payment of $1,012 would be able to take out a $150,000 loan without the need for PMI. In order to maintain the same monthly payment of $1,012 when PMI is factored in, a buyer would be limited to a loan just over $136,000, or 9.3% less. This could require a buyer to put down cash that they may not have, price them out of a certain neighborhood, or require them to buy a lower quality home, all of which could have a major impact on their current personal finances and future wellbeing.

Mortgage Details		
Total loan	$ 150,000	$ 136,251
PMI rate	0.00%	0.75%
Interest rate	3.50%	3.50%
Annual Payment Breakdown		
Annual insurance	$ 1,000	$ 1,000
Annual taxes	$ 2,993	$ 2,718
Mortgage payment	$ 8,156	$ 7,408
PMI	$ -	$ 1,022
Total annual payment	$ 12,148	$ 12,148
Total monthly payment	**$ 1,012**	**$ 1,012**

Renew Indianapolis' CDFI lending affiliate, Edge Fund, has created a first mortgage product in partnership with local banks that does not require PMI. Renew utilizes a private bank to underwrite a loan, and sets aside a separate loss reserve to mitigate any losses due to non-payment.

Benefits:

- In addition to the above benefits to the buyer, removing the need for PMI can benefit the CBO developing the housing and the local housing market. When a buyer has greater purchasing power the home price can be pushed slightly higher, as illustrated in the example above.

This strategy returns more money to a CBO developing affordable single-family homes, increasing their financial capacity to continue doing this work. If a CBO sells a home for $150,000 instead of $136,000, it can utilize the $14,000 difference to close the financing gap on the project, stretching limited grant resources further while maintain the same monthly payment for the buyer. Additionally, a history of sales at $150,000 vs. $136,000 will begin to lift neighborhood home values higher, slowly driving the market to a place where private activity is more likely to occur. It should be noted that this may only be desirable where home values are severely depressed, and not in neighborhoods where values are already at a point where it is unaffordable for LI buyers. CBOs should always pay close attention to what a neighborhood needs at that particular moment in time.

Drawbacks:

- The money will be tied up for the term of the loan. If the loan is for a typical 15- or 30-year term, the CBO will be limited in how many loans it can make before the money potentially runs out and it has to wait to receive payments back in before it can make additional first mortgage

loans. A way to mitigate this is by selling the mortgage on the secondary market similar to how traditional banks trade mortgages.
- While the CBO holds the mortgage, it holds all of the risk. Should a borrower miss payments and default, a CBO may be in the unconformable position of foreclosing on it's client and is stuck with the responsibility of reselling the home. This could also be viewed as a positive since a CBO is probably more likely to work out a more flexible exit strategy for the homeowner than a traditional lender would.

Purchase and Mark Down: CDBG can be used to simply to purchase an existing home to be resold to a buyer that meets the CDBG income guidelines. HOME can also be utilized to purchase an existing home as long as the buyer meets the HOME income guidelines and the home meets current local code requirements.[21]

Renew Indianapolis, though its CDC affiliate, King Park Development Corporation, is utilizing this model. King Park engages a local, for-profit developer to build new homes in scale on vacant lots in King Park's service area. After the homes are completed, King Park purchases the home from the developer, utilizing CDBG and/or HOME funds, and sells it to a LI buyer.

Benefits:
- This generates economies of scale by mobilizing work over multiple lots and homes. If a developer can secure multiple lots or buildings it can work on at once, it will be able to spread the cost of expensive work such as concrete pouring and water and sewer infrastructure over multiple lots.
- This shifts the risk over to the private developer. If something goes wrong during construction, such as cost overruns or labor or material shortages, it is up the developer to solve the issue and carry those costs. Any increase in cost could be passed on to the buyer, King Park, or the developer could attempt to sell the home on the open market, but the housing market how much the develop can sell the home for and it might just be the case that a quick, guaranteed purchase by King Park is worth a lower sales price.
- Purchasing an existing home does not require a CBO to tie up its cash resources or borrowing capacity over the life of the construction and marketing period for a home. This could allow the CBO to cycle through grants quicker.
- Shifting the burden of development to a private entity utilizing its own cash or financing removes the need for compliance with public subsidy compliance requirements during construction and prevailing wage requirements that could impact CDBG and HOME projects. While the

[21] https://files.hudexchange.info/resources/documents/HOME-CDBGGuidebook.pdf

intention behind compliance and prevailing wage requirements is positive, it can have a meaningful impact on the cost of construction of affordable housing and in an industry where every penny counts, and avoiding this cost increase can be a meaningful boon to the project.[22]

Drawbacks: This model does have some drawbacks due to the loss of control over the project.

- A private developer will typically build what fits into their model and what they believe will sell. This does not mean a CBO can't have some input, but since it won't directly control the construction, it won't have the final say in decision making.
- Scaled development may strain relationships with existing, long-term residents. CBOs, and specifically CDCs, are place-based by definition and should exist to maintain positive relationships with existing residents so that new residents are welcomed and old residents are preserved and can reap the benefits of future home value appreciation and new neighborhood amenities.

Down Payment Assistance (DPA): Both CDBG and HOME can be utilized as a source of down payment assistance.[23] A number of CDFI's and CBOs already utilize this strategy. DPA funds can be structured as a grant to a homebuyer or as a second position loan behind the first mortgage.

As an DPA source, HOME and CDBG can be utilized to:

- Provide up to 50 percent of required down payment;
- Pay reasonable closing costs;
- Provide principal write-down assistance;
- Subsidize interest rates;
- Finance acquisition of housing occupied by the homebuyer; and
- Acquire guarantees for mortgage financing from private lenders (i.e., assist homebuyers with private mortgage insurance)

Benefits:

- DPA creates instant equity for buyers and opens homeownership up to households without significant savings.
- Similar to the Purchase and Markdown strategy, DPA funds carry fewer federal compliance requirements because the money is utilized after construction completion, allowing the money to be deployed quicker.
- DPA funds must be secured by mortgage for the relevant affordability period, ensuring the home either stays affordable for that period or the subsidy is returned to the grantee.

[22] https://faircontracting.org/wp-content/uploads/2020/01/Should-Prevailing-Wages-Prevail.pdf
[23] https://files.hudexchange.info/resources/documents/HOME-CDBGGuidebook.pdf

- Like a Housing Choice Voucher, the homebuyer could have greater choice of home or neighborhood because they would not be limited to specific homes that were developed with public subsidy.

Drawbacks:
- Like all other public subsidy funded models of development, the home is only required to be affordable as long as the affordability period lasts.

Finding #3: Local assessors and appraisers need to support the mission of affordable single-family development and neighborhood revitalization by community-based organizations.

Assessors and appraisers play a large but often overlooked role in determining the value of a home. Assessors determine the taxable value of a home similar to how an appraiser determines the market value. A home is compared with other recent sales known as “comparables” that share the same characteristics – square footage, bedroom count, bathroom count, finishes, and the overall neighborhood or market conditions to name a few. A homes’ value can be negatively impacted if there is little history of comparable sales in an area or if the comparables the assessor or appraiser used are not lower quality and not truly comparable, not to mention the historic impact of redlining on the value of real estate in certain neighborhoods. Both Renew and NEAR have seen their recently finished, high-quality rehabilitated or new homes be assessed or appraised based on comparisons to home sales that are close in proximity, but inferior in quality, resulting in a lower-than-expected assessment or appraisal Additionally, some assessors can insert their own bias when valuing homes based on neighborhood characteristics, resulting in a low assessed value.[24] A fair assessment and appraisal matter because a low valuation on either means a lender can lend less money on this home, which, if construction costs remain the same, will result in the project requiring subsidy to fill the gap.

Benefits:
- Encouraging higher assessment/appraisal values can go a long way in closing the financing gap since lenders typically set the loan amount based on the value of a home (for example, 80% LTV).
- Educating assessors and appraisers on their own inherent biases would create a more equitable housing market.

Drawbacks:
- Engaging in an education campaign can be very resource intensive. Developing a curriculum and materials and fostering buy-in from the

[24] https://www.washingtonpost.com/blogs/where-we-live/post/low-appraisals-effect-on-the-housing-market/2012/10/19/575535b6-1a37-11e2-94aa-9240e72ee00b_blog.html

appraiser industry and assessor's offices could require a hefty input of human and financial resources.
- Higher assessment values would result in higher property taxes. Low-income homeowners, especially seniors on fixed incomes, may not be able to absorb a tax increase.
- Higher assessment/appraisal values could result in affordability issues. An increase in value is good to a certain extent, but if it pushes the price of a home beyond what an LI household can afford, that is an issue.

Finding #4: Land bank organizations should prioritize land for affordable single-family housing development.

Land bank organizations and local units of government that own land have an immense amount of power. CBOs and private developers alike will often seek out publicly owned land that is sold either at a public sale/auction or conveyed through a land bank organization on the open market. The way they conduct sales of publicly owned land will influence who has access to and who can afford these properties. If all land is offered through an open market auction or transaction, this may create a scenario where the most desirable properties go for the highest price, and CBOs often can't compete with private developers, and they lose out on properties in areas where LI families can have greater opportunity. Some land bank organizations give priority and/or a reduced cost to CBOs when purchasing publicly owned property. Renew Indianapolis, which also functions as the city's land bank organization, gives both priority access to CBOs, and discounts the price. The Wilmington Land Bank is considering both of these options as they review their policies. Additionally, some land bank organizations, including the Wilmington Land Bank, require that properties they sell converted into affordable housing for a period after the sale.

Benefits:
- Prioritizing CBOs ensures that cash-strapped and mission minded organizations have access to desirable properties on which to build affordable housing.
- Requiring that the land/homes disposed of through land banks become affordable housing ensures that, no matter what else is happening in the market, some affordable housing will be built.

Drawbacks:
- Requiring that the land/homes disposed of through land banks become affordable housing might discourage some developers from engaging in this work because there is less potential for profit.
- If vacant land/homes are only available in the most distressed neighborhoods, which is often the case, this would continue to concentrate poverty, counter to many CBOs goals of mixed-income neighborhoods.

Finding #5: Alternative affordable housing development models can be complimentary to the traditional incremental approach. There is growing interest in "tiny" or modular homes as a solution to the affordable housing crisis. Additionally, Community Land Trusts (CLTs) offer a new model of homeownership that can ensure affordability is permanent.

Tiny homes and increased lot density: Building multiple "tiny" (smaller than typical) detached homes on a lot or multiple lots can be a complimentary affordable housing development model. Smaller homes allow for increased density and in areas where land value is very high, this can create significant cost savings for buyers. This is different than typical condominium development (although the same principle applies) where a developer creates multiple for-sale units within one building. Tiny homes are suitable for those who choose this lifestyle, but should not be pushed as a primary development practice for affordable housing. However, tiny homes could decrease the price of homes due to an increased supply of lower priced options in an area.

Modular homes: Modular housing is a commonly mentioned as a potential alternative to traditional construction. It is becoming a more common tool primarily used in apartment construction due to the cost savings from repetitive architecture and streamlined construction and assembly.[25] Modular single-family housing is also becoming more common as well. However, two respondents interviewed that are directly involved in affordable housing development stated that, in their experience, modular housing cannot be done at an affordable price point.

Community Land Trusts (CLT): A CLT is a nonprofit organization that owns and manages the land on which affordable homes are built. These homes are sold to low- and moderate-income families, and the CLT maintains ownership of the land, which is then leased to the homeowner through a ground lease agreement. The U.S. Department of Housing and Urban Development Department (HUD) recognized CLTs and established federal definitions and guidelines in 1999.[26] CLTs can be developed utilizing CDBG and HOME funding, and the underlying land can be owned by a CBO.

A CLT generally follows this structure:

- The CLT offers the house for sale to an income-eligible buyer at below-market price.
- The homeowner purchases the house and leases the underlying land from the CLT.
- The homeowner lives in the house and maintains upkeep.

[25] https://www.manhattan-institute.org/html/modular-housing-affordable-new-construction
[26] https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/2012-CLTs-An-Alternative-Approach.pdf

- The homeowner re-sells the house to the CLT for a formula- determined price.
- The seller recovers the down payment, principal paid on the mortgage and a credit for any capital improvements. The seller also claims some of the house's appreciation in the value.
- And the cycle starts over.

Benefits:

- Any CDBG and HOME funds invested in the development of a CLT property will stay in the property long term. Unlike the other models of subsidized development/financing above, since a CBO will own the land, it gets to make the call if and when the property becomes market rate and when that public subsidy investment is cashed out.
- A homeowner is able to realize some appreciation on the sale, as determined by the formula that governs CLT sales.
- the buyer will have low monthly mortgage payments due mortgaging the improvement value only. This allows the buyer to save money and build wealth for their own financial goals.

Drawbacks:

- A CLT model requires that the nonprofit managing it be around for the long-term lease. Any number of things could happen to a housing market or an organization during this period, and there could be a time when a CBO does not want to manage the CLT.
- Localities tax these properties like they would any other home. If the homeowner does not own the land, it is unfair that they have to pay taxes on that value. This requires the CLT manager to work with the assessor to tax these homes differently. This not a lower assessment, but a lower taxable rate due to unique nature of the ownership structure.

Summary:
The findings above represent specific tools or advocacy methods that organizations similar to Cinnaire and its affiliates have used in affordable single-family housing development. Generally, findings can be broken down into: 1) aspects of development the organization controls directly, such as specific development strategies or financing programs, and: 2) partnership and policy advocacy strategies such as education efforts or local government policy changes that the organization must work with others on to achieve change.

Recommendations

From these interviews and additional research, I've developed four recommendations and relevant implementation strategies for Cinnaire and its affiliates to consider when engaging in affordable single-family housing work. These recommendations are discussed in detail below.

Recommendation #1: Utilize public subsidy and philanthropy for development costs associated with affordable single-family housing development. As discussed in the background section above, public subsidy resources such as CDBG, HOME, HTF, and other state and local grant programs are the most common sources of funding for the direct development of affordable single-family homes. Philanthropy dollars are also an option, but likely less commonly available.

> **Implementation Strategy: Engage directly in the subsidized development of affordable single-family housing, ideally in concentrated efforts.** The main strategy behind this recommendation is for Cinnaire Solutions to directly engage in subsidized development as it is currently. This is not a new recommendation, but rather corroboration that this remains one of the most widely practiced strategies for the creation of affordable single-family housing. Cinnaire Solutions should continue to engage in direct development, but in a more concentrated effort. If philanthropy dollars are available for direct development costs, philanthropy should be used in complicated projects or for costs that are ineligible for reimbursement by public subsidy resources.

Recommendation #2: Utilize public subsidy and philanthropy as a financing tool.

> **Implementation Strategy: Create or facilitate the creation of first-mortgage loan programs for LI homebuyers that do not require PMI like FHA and conventional loans.** Cinnaire should consider creating a first-mortgage loan product for low-income buyers. This loan product should have flexible underwriting criteria for low-income buyers, not require PMI, and not require a 20% cash down payment. If Cinnaire cannot or is not willing to create this loan product, the organization should work with other CDFIs or non-profit lenders in the Priority City markets to do so.

> **Implementation Strategy: Purchase new or existing homes, developed by a private third-party, with public subsidy to mark down to affordable.** Cinnaire should engage in an affordable housing creation model that encourages private developers to develop homes in scale, purchase those homes utilizing public subsidy, and marking them down to an affordable cost. This not only creates affordable housing units, but encourages private developers to enter markets they typically wouldn't. This recommendation can be applied to all three Priority Cities, but specifically Detroit where there are large swaths of vacant land, often adjacent to one another.

> **Implementation Strategy: Utilize public subsidy or philanthropy as a source of down payment assistance for LI homebuyers.** As mentioned in the findings above, DPA is one of the most effective ways to quickly get LI families into their

own home. Cinnaire should seek out DPA resources either directly or through partnerships with DPA granting agencies. DPA resources should be directed towards homes Cinnaire Solutions is developing in order to further decrease the subsidy gap.

Recommendation #3: Address market and affordability issues through state and local policy advocacy.

Implementation Strategy: **Advocate for changes to how local governments assess the value of homes in distressed neighborhoods.** Cinnaire should work with the assessor's offices in the Priority Cities to evaluate and potential encourages changes to how properties are assessed. Assessors should be encouraged to select comparable homes outside of the immediate geography if no direct comparisons are available. Assessors should also be trained in implicit bias to address any racial biases that may inform assessment values.

Implementation Strategy: **Educate appraisal firms so that they understand the neighborhood market and community development as a whole to achieve more favorable appraisal values.** Similar to advocating for changes to assessments, Cinnaire should educate appraisal firms that the organization works with in order to encourage higher appraisal values. Appraisers should be should be encouraged to select comparable homes outside of the immediate geography if no direct comparisons are available. Appraisers should also be trained in implicit bias to address any racial biases that may inform appraisal values.

Implementation Strategy: **Advocate for CBOs and other developers to have affordable, priority access to publicly owned property such as vacant lots or vacant buildings.** Cinnaire should use its policy and advocacy efforts to ensure CBOs and other developers have access to publicly owned property to develop into affordable housing. Granting land as the subsidy is a no-cost way for cities to encourage affordable housing development.

Recommendation #4: Create or facilitate the development of alternative affordable single-family housing models.

Implementation Strategy: **Create or facilitate the creation of Community Land Trusts to preserve affordability.** Cinnaire should utilize its development affiliate, Cinnaire Solutions, to create, or partner with local agencies in each Priority City to create, a community land trust. This strategy should be utilized in areas where long-term affordability is the main priority and utilizing housing to create wealth for families is secondary. CLTs can be combined with traditional subsidized development or alternative construction practices strategies.

Implementation Strategy: **Consider alternative construction practices in an effort to reduce costs or increase availability of housing available to LI buyers.** As mentioned in the findings, these strategies should not be the main focus of Cinnaire Solutions, but a complimentary one that focuses on increasing housing supply in order to lower costs organically. Tiny homes/increased density can be viable strategy in geographies with limited available land. Modular homes can be a viable strategy in geographies where labor costs are prohibitively expensive or where housing needs to be constructed quickly.

Conclusion

Since homeownership is often seen as the most straightforward way to build wealth for low-income families, who disproportionally identify as minority, the lack of available affordable housing is a major concern that will exacerbate growing economic and racial inequality in the U.S. The tools provided in this report should guide Cinnaire as the organization works to address the shortage of affordable single-family homeownership opportunities in the Priority Cities and beyond.