

April 25, 2017

From: David Emerson, Executive Director Habitat for Humanity (HFHSV)
Subject: Request to alter income limit for Covenant Running with the Land, Valley Bank Property

As of this writing we have completed one selection round and have all applications in from a second round. We wanted to report to the Town our findings through those rounds and ask for consideration regarding a change to the upper income requirement stipulated in the Covenant running with the land.

While we cannot speak specifically about one application we can report the following:

- Two households have been selected through our first round and represent those who are from the Primary Preference outlined in the approved Preference Document (Exhibit C of the Development Agreement). These represent individuals who lived in Lyons at the time of the flood and were in some way displaced in the aftermath of the flood. They meet our minimum qualifications and are below 60% of the Area Median Income (AMI). Our first round only considered applicants who met that Primary Preference criteria.
- Five others were not accepted as of that first round. A handful of others opted not to fully complete an application. Different reasons exist on each but there were two major buckets:
 - Not first Priority or above the upper income limit of 60% AMI
 - Did not meet HFHSV's minimum lending qualifications
- Minimum Qualifications:
 - Intent of minimum qualifications are to ensure an appropriate probability of success in this deeply subsidized product. As a regulated mortgage lender, we cannot provide a mortgage that would be inappropriate given the applicant's documented qualifications. Habitat would have legal consequences for extending credit on an application that fails to demonstrate ability to perform on that loan.
 - Not enough income to meet the minimum (\$1,850/month or \$22,200 year). Income can come from a job or another reliable source (SSI, Disability, child support, etc.) and must be documented in an appropriate manner. It is important to note that we are using a mortgage cost estimate of \$150k and a total term length of up to 35 years rather than our standard 30 years. These items lowered the minimum income requirement. That minimum is very aggressive for a homeownership model.
 - Debt to income. Habitat will make sure that the mortgage is set at a certain percentage of their income at origination. If their income goes up or down once they move in we do not adjust the mortgage. So, we take that number and add up all their other debt (car, student, credit cards, etc.) and those two numbers cannot be over 43%. Basic idea is that if there is more in total debt payments than 43% some area of payment obligation is likely to fail.
 - Creditworthiness. As a lender we need to make sure that past debt obligations have been honored. If we see that an applicant has been habitually late or has not been paying other debt obligations, then that is a concern. We are much more tolerant of issues in this regard than a bank.

As we have reviewed initial results there have been requests from a handful of potential applicants for an adjustment to allow for those up to 80% AMI. We have no way to know for certain how many additional applicants would come from the Primary Preference if the AMI were increased but have enough information to suggest good probability of some.

We also know that there is some evidence from other homeownership models that suggests 80% AMI is a more standard limitation and would prevent an issue in recessionary periods in terms of finding qualified buyers.

Habitat for Humanity St Vrain Valley's Board of Directors has met on this issue and has voted to support a change to this covenant if it is in the interests of the Town. Habitat for Humanity International Policy allows for selection of applicants between 60% and 80%, but prefers those below 60%. As a result, our support of a change is contingent on assuming that if an increase of AMI of 80% AMI is approved that those below 60% are given a preference to those between 60-80%. For the initial homeowners, that could be banded. For example, an applicant who is 60-80% AMI who is preference one (lived in Lyons at time of flood and suffered displacement) would have preference over an applicant below 60% who was in preference number 2 or 3.

Other Data points:

Other Permanently Affordable Homeownership Programs: We did not have a chance to get a comprehensive list of other affordable homeownership programs in the area. However, we did discuss this with the City of Longmont and the City of Boulder:

- **City of Longmont:** When the City had an affordable homeownership program several years ago the AMI limit was 80%. Our contact felt this was a pretty standard limit. She did indicate that at times there were issues with finding buyers for their product although that was during a recessionary period when many other real estate transactions were stagnant. She did not feel they had much of an issue in an otherwise healthy market. She agreed that allowing increasing to 80% would deepen the pool and help to prevent an issue with finding buyers although this is fairly obvious.
- **City of Boulder:** They have several AMI limits as it all depends on what was negotiated with the Developer. About 90 of the 800 or so properties have a 60% AMI limits. They generally have less people qualified with those, but does not feel they have had an issue with getting a buyer. They do offer down payment assistance to help with these buyers. He felt a reasonable compromise would be to have an 80% AMI limit, but add to the preference policy a preference for those under 60%.

Possible borrowing options for those 60-80%: While no exact conclusions can be drawn in regards to whether or how much an applicant would qualify for in regards to a mortgage, there is some evidence to suggest that those earning between 60-80% AMI struggle to own a home in the Lyons area. At the top end of that spectrum a household of four earns \$68,000 at the 80% AMI Level. Assuming total mortgage debt does not exceed 30% of their income, is amortized over a traditional 30-year mortgage with a rate of 4%, the amount that they might qualify for with 5% down would be in the range of \$250k and \$275k¹. Sales history for the last 24 months shows only 20 of 172 home sales in the Lyons area were below \$300k.

Past Board Discussion regarding affordable housing: Town Resolution 2016-43 was discussed at the April 18, 2016 Board meeting. Per the cover sheet for that item this resolution was, in part, the result of the Board of Trustees requesting staff and the Special Housing Committee to research and recommend ways in which the town can achieve the goal of developing affordable housing within the town of Lyons. In that resolution, one of the preambles states that "the majority of homes lost in the September 2013 floods were affordable to residents earning 80% of the average median income for Boulder County". Therefore, there seems to be recognition that housing serving those at 60-80% was significantly reduced and consideration for this income band is reasonable.

Potential downside to adjusting the income limit: This income limit has been in place for many months now and went through a thorough public process. Additionally, Habitat has conducted a significant amount of outreach over the last 15 months regarding all our requirements. During that time, no objections were raised as it relates to the 60% limit.

In summary:

Habitat for Humanity of the St Vrain Valley is recommending a change to the Covenant running with the land to indicate an upper income limit of 80%. We believe this gives Habitat and the town the most flexibility to ensure 1.) Primary Preference applicants are selected and 2.) provides greater flexibility in the future while still maintaining the option to maintain a preference for those with a lower income.

¹; Bankrate.com 4/25/17. 30 year fixed rates for lenders active in Lyons, CO were anywhere from 3.785% - 4.434% with credit scores of 740+