

## Seattle Housing Levy Homebuyer Assistance Program

Technical Advisory Committee, October 30, 2015

The current Housing Levy provides a little over \$9 million for homebuyer assistance. First time homebuyers are supported through two strategies: down payment assistance loans and funding for the acquisition and/or development of re-sale restricted homes.

Loans are available to first-time homebuyers with incomes at or below 80% of Area Median Income. All homebuyer households must, among other criteria, complete a pre-purchase homebuyer education program, use the home as their principal residence, be able to qualify for a first mortgage, and provide a minimum of \$2,500 or 1% of the purchase price (whichever is greater) toward the home purchase.

The program follows HUD's maximum home purchase price, currently \$354,000. The amount of assistance generally ranges from \$45,000 to \$55,000 per home, with some exceptions as described below.

### 2009 Housing Levy Performance to Date

The current Housing Levy has a total goal of 180 homebuyers assisted. From 2010 to date, the program has funded 152 home purchases with just under \$6 million. An additional 17 homebuyers were assisted through leveraged contributions, and are counted as Levy production under Council-adopted policies. OH has awarded an additional \$2.5 million to homeownership agencies, enough to assist approximately 50 more households over the next 12-18 months. With the combined closed loans and funds already awarded, the program is on track to exceed its Housing Levy goal.

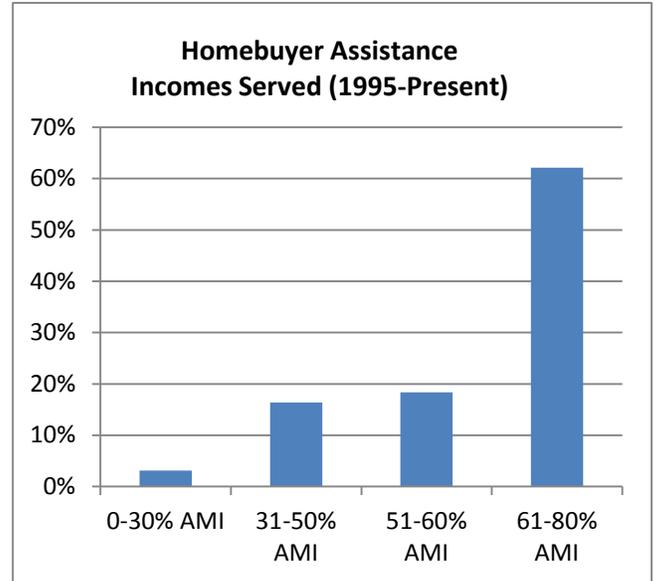
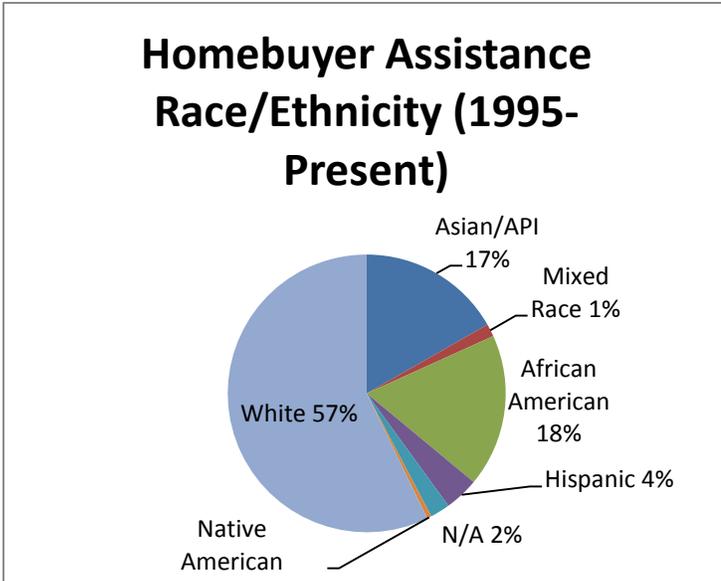
Historically, the Homebuyer Assistance Program utilized a combination of Housing Levy and federal (mostly HOME) funding. As a result, the total number of homebuyer assistance loans is larger than the Housing Levy loans alone. From 2010 until present, 350 homebuyers were assisted with all fund sources. In 2014, due partly to changing federal regulations, HOME funds were moved out of the homebuyer assistance program. The program is now funded almost entirely using the current Housing Levy and loan repayments (program income) from prior Housing Levies and other local sources.

In 2015, OH has seen a slow-down in both loans closed and funding demand from homeownership agencies. As of late September 2015, only eight loans closed. For comparison, since 2010, the average annual closing has been closer to 55 loans a year. There has also been low funding demand, as most homeownership agencies already have a healthy balance of funds awarded through previous NOFAs that is not yet spent. As a result, there is likely to be a balance of

approximately \$1.5 million in uncommitted homeownership funds at the end of this Housing Levy period.

### Program Demographics Since Inception

OH has closed 997 loans since program inception in 1995. The information below shows demographics of those served; please note that not all information was consistently reported. These percentages are for borrowers where the data was available. 19% of all households were female head of household and 51% were single person households.



### Purchasing Power with Current Down Payment Assistance

The Homebuyer Assistance Program generally provides up to \$45,000 for down payment assistance. Down payment assistance loans may go as high as \$70,000 when Housing Levy funds are pooled with other fund sources, provided that the average amount of City funding for all eligible homebuyers assisted by the program does not exceed \$45,000. In addition, the Housing Levy provides up to \$55,000 in assistance for the purchase of resale-restricted homes.

The table below shows the purchasing power for a household of three at 80% AMI, for both single-family homes and condos, using a \$45,000 down payment loan. The table also shows the impact on the affordable purchase price when the buyer makes the minimum required contribution of \$2,500 or 1% of the purchase price, versus a larger contribution of \$20,000. The larger contribution is not unusual for buyers participating in the program and can include the borrower’s funds, grants and other subordinated loans. These calculations use some optimistic assumptions regarding debt, credit and the borrower’s debt to income ratio. As is always the case with homeownership, any change in the assumptions could impact purchasing power.

	Single-Family Home		Condos	
OH Down payment assistance	\$45,000	\$45,000	\$45,000	\$45,000
Borrower & Other Contribution	\$2,500	\$20,000	\$2,500	\$20,000
Monthly Payment	\$1,223	\$1,685.80	\$1,480	\$1,681
Homeowner Dues	N/A	N/A	\$300	\$300
PITI Ratio	25.64%	34.17%	30.87%	35.07%
Loan Amount	\$190,000*	\$253,000	\$190,000*	\$221,000
Estimated Max Purchase Price <sup>1</sup>	\$237,500	\$318,000	\$237,000	\$286,000

\*Note in this scenario that with minimum borrower contribution, single-family and condo purchase price are the same, despite condo dues. This is because borrower has room for a higher debt to income ratio, but in both cases has hit the ceiling on LTV.

Currently, every Seattle neighborhood has a median sales price above the Homebuyer Assistance Program's maximum sales price of \$354,000 and above the estimated maximum purchase price in the scenarios above. The chart below shows median sales price by neighborhood for all completed sales in 2015, through mid-September, including both single family homes and condos.

Area	Homes Sold YTD	Median Sale Price YTD
West Seattle	1361	\$426,000
Southeast Seattle	504	\$435,000
SODO/Beacon Hill	262	\$404,500
Central Seattle	1080	\$540,000
Queen Anne/Magnolia	831	\$585,000
Belltown/Downtown	480	\$516,000
Ballard/Greenlake	1709	\$540,000
North Seattle	1035	\$520,000

The question then is how many homes on the market would realistically be affordable to the typical homebuyer participating in the Homebuyer Assistance Program. The analysis below shows the purchasing power of a three-person household at 80% AMI, with \$45,000, \$60,000 and \$75,000 in down payment assistance. All assumptions remain the same as in the above analysis, with a few minor differences.

<sup>1</sup> Assumes interest rate @ 4.5%, insurance @.25% and taxes @ 1.1%. Per Fannie Mae eligibility matrix, max DTI ≤ 45% with a minimum 700 FICO. For 680 FICO max DTI ≤ 36%.

The analysis includes the estimated maximum purchase price, along with a rough estimate of the percentage of sales affordable at or below that price from January through September 2015. The percentage of sales affordable is based on purchase price data from the King County Assessor's office. Several important caveats must be kept in mind regarding this data.<sup>2</sup> One of the most important is that many lower-priced homes need significant repairs, even to pass an inspection to qualify for a mortgage. Therefore, many lower-priced homes may still be out of reach of buyers served by this program, and the percentage of homes affordable at each sales price likely needs to be discounted by a significant factor.

Down Payment Assistance	Single-family homes						Condos					
	\$45,000	\$60,000	\$75,000	\$45,000	\$60,000	\$75,000	\$45,000	\$60,000	\$75,000	\$45,000	\$60,000	\$75,000
Borrower Min. Contribution	\$2,500	\$2,500	\$2,500	\$20,000	\$20,000	\$20,000	\$2,500	\$2,500	\$2,500	\$20,000	\$20,000	\$20,000
Estimated Max. Purchase Price	\$237,500	\$316,250	\$331,400	\$318,000	\$333,000	\$348,000	\$237,500	\$283,850	\$299,000	\$286,000	\$301,000	\$316,000
Estimated % of sales at or below purchase price	5%	13%	15%	13%	15%	17%	25%	37%	41%	38%	42%	45%

Not surprisingly, increasing down payment assistance does increase purchasing power. Assuming a minimum borrower contribution, increasing the down payment from \$45,000 to \$60,000 equates to \$78,700 in additional purchasing power for a single-family home and \$46,350 for a condo. Increasing it from \$45,000 to \$75,000 equates to almost \$93,900 in purchasing power for a single-family home, and \$61,500 for a condo.

For single-family sales, increasing down payment from \$45,000 to \$60,000 could have increased the potentially affordable inventory by about 8%; increasing down payment another \$15,000 to \$75,000 could have increased the affordable inventory by only another 2%. For borrowers bringing \$20,000 to the purchase, the impact of increasing down payment was more limited, increasing potentially affordable inventory by only 2-4%.

The condo picture looks more positive. With a \$45,000 loan and a minimum borrower contribution, about 25% of condo sales were potentially affordable. Increasing down payment from \$45,000 to \$60,000 could have increased the potentially affordable inventory by almost 12%; increasing down

<sup>2</sup> 1) This analysis was run for single-family residential and condo sales. Building type category is selected by buyer/seller, so some sales may have been coded incorrectly. 2) Data likely includes some non-market transactions 3) Data does not provide any information on square footage, bedrooms or overall condition of the house.

payment another \$15,000 to \$75,000 could have increased the affordable inventory by only another 4%. For borrowers with \$20,000, the impact of increasing down payment was more limited, increasing potentially affordable inventory by only 4-7%.

Finally, it is important to note that down payment assistance is a loan, not a grant. Increasing the down payment amount comes with increased cost, potentially significant. OH's down payment assistance loans are currently structured as 30 year deferred loans at 3% simple interest and share appreciation; interest plus shared appreciation cannot exceed 6%. OH is considering changes to loan terms for the 2016 Housing Levy. They include reducing either interest and/or shared appreciation, as well as changing the loan structure so that repayment begins earlier.

### 2016 Housing Levy

The table below shows three scenarios for the Homebuyer Assistance Program in the 2016 Housing Levy. For planning purposes, each scenario assumes the current Housing Levy goal of 180 homebuyers assisted. That goal could be accomplished through down payment assistance loans, and acquisition or development assistance loans to create re-sale restricted units. Units created are in parenthesis after the dollar amount.

Source	\$45,000 DPA	\$60,000 DPA	\$75,000 DPA
Estimated Carry Forward from 2009 Housing Levy	\$1,500,000 (33)	\$1,500,000 (25)	\$1,500,000 (20)
Estimated Program Income from Revolving Loan Fund	\$750,000 (17)	\$750,000 (13)	\$750,000 (10)
2016 Housing Levy	\$5,850,000 (130)	\$8,520,000 (142)	\$11,125,000 (150)
Total	\$8,120,000 (180)	\$10,820,000 (180)	\$13,550,000 (180)

### Discussion Questions

1. What is a reasonable production goal, given the current trajectory of the housing market?
2. What is the appropriate down payment assistance level?
3. What is the role of increasing supply of affordable units for purchase through development and/or acquisition?
4. Should other program changes be made to increase usage of the down payment assistance program, such as providing assistance to buyers want to sell their current home and buy another?