AH Committee

From: Jeff Gilbreath <jeff@hawaiiancommunity.net>
Sent: Monday, November 29, 2021 6:07 AM
To: AH Committee
Subject: 11/29 Presentation - Hawaiian Community Assets
Attachments: Updating AHF and County Sales Price Guidelines.pdf

Aloha,

Please find our organization's presentation for the 11/29 Affordable Housing Committee.

Mahalo,

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Updating Affordable Housing Fund & County Sales Price Guidelines

Hawaiian Community Assets

Overview

Affordable Housing Fund

- Analysis
- Recommended Changes

Sales Price Guidelines

- Analysis
- Recommendations

Conclusion

Affordable Housing Fund

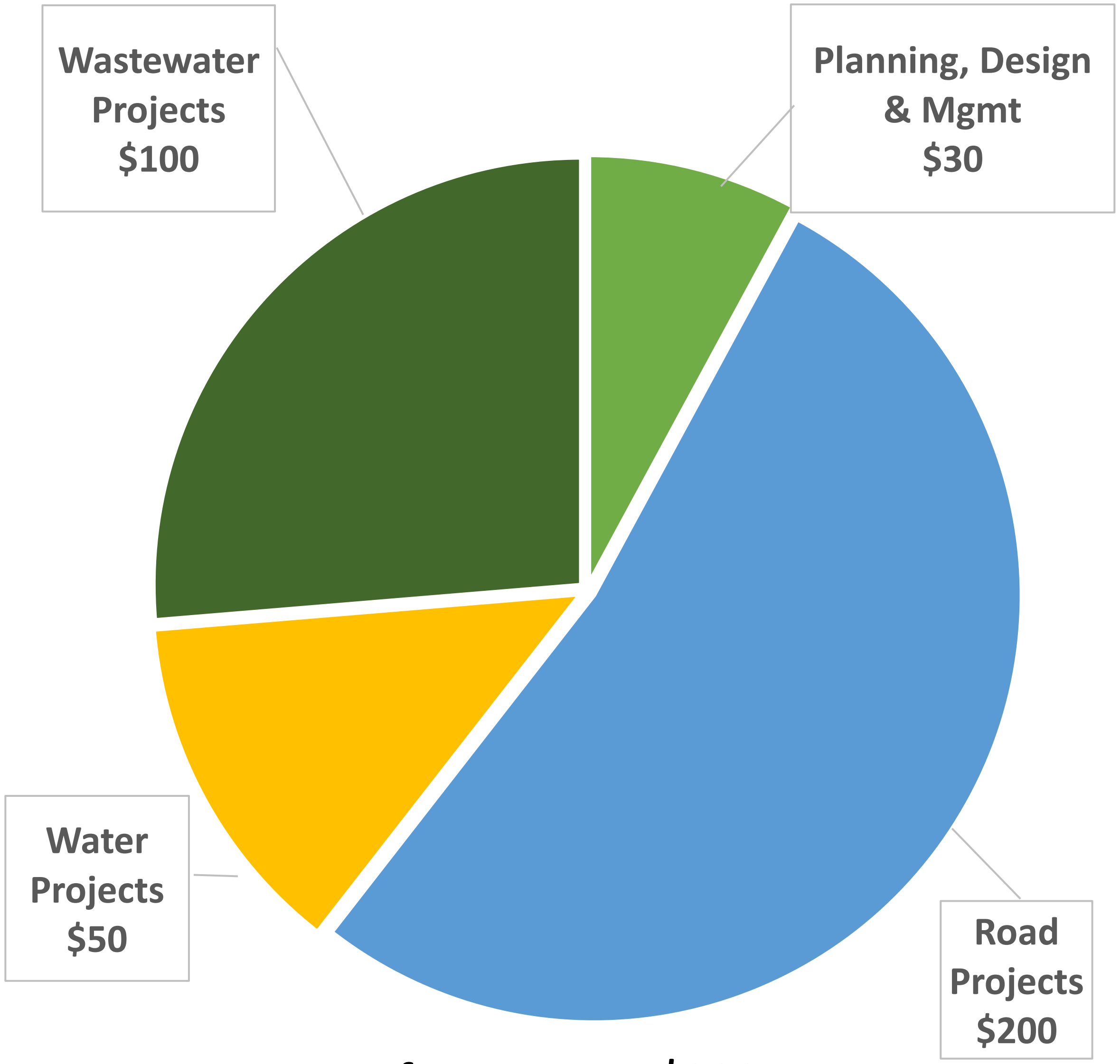
Our current affordable housing system is outdated and providing the type and price of homes exactly as it is setup to do.

Local residents below 50% AMI and 61% to 100% AMI are left out of the current affordable housing system and are forced to live in overcrowded conditions or compete for a few affordable homes.

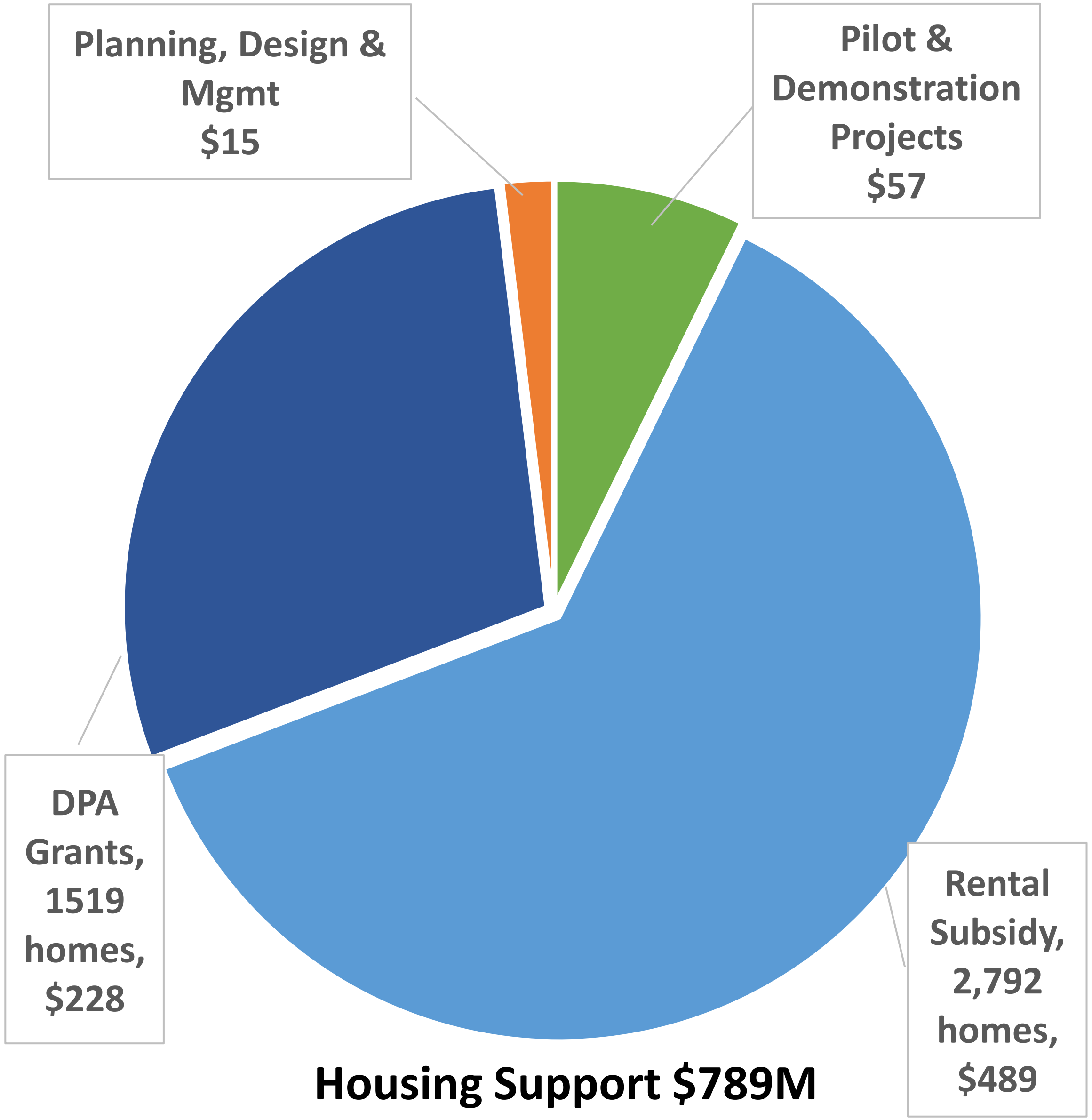
Under our current affordable housing system, there are two primary barriers standing in the way of unlocking 5,000 affordable homes for local residents: Community Serving Infrastructure and Housing Support.

$380 million needs to be invested in our Local Communities for adequate water, sewer, and roads.

$789 million needs to be invested in our Local People for affordable rentals and home purchases.



Infrastructure $380M



Housing Support $789M

Under our current affordable housing system, there are concerns about the county's capacity to take action on affordable housing.

There is a lack of community engagement in the current affordable housing system at a time when community members are calling for greater involvement and oversight.

Update Affordable Housing Fund to address barriers by…

*** Increasing annual revenue to $58 million**
*** Enabling bond sales**
*** Expanding eligible uses of funds**
*** Targeting real needs of local residents**
*** Establishing community oversight board**

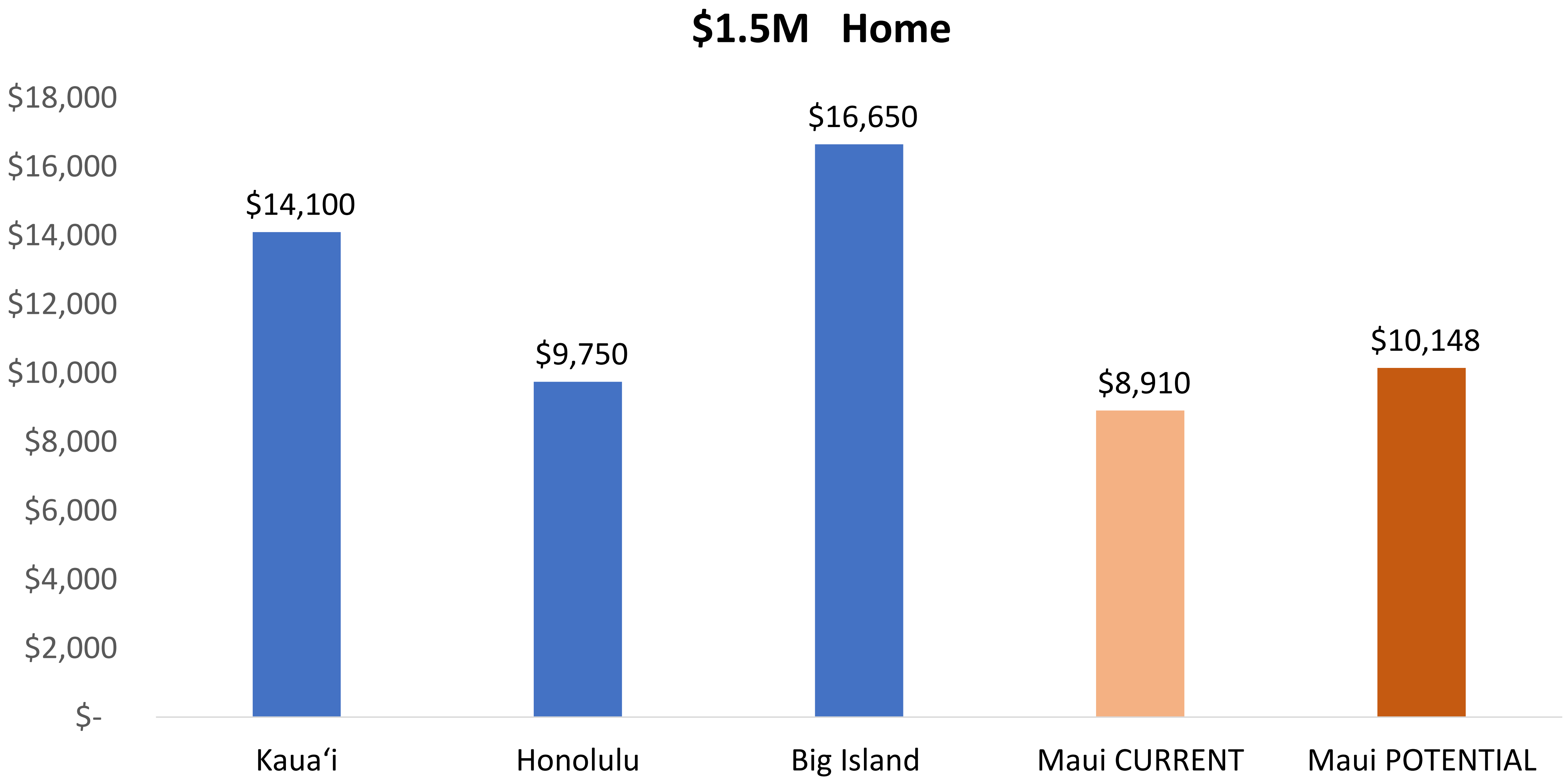
Increase Annual Revenue to $58 Million

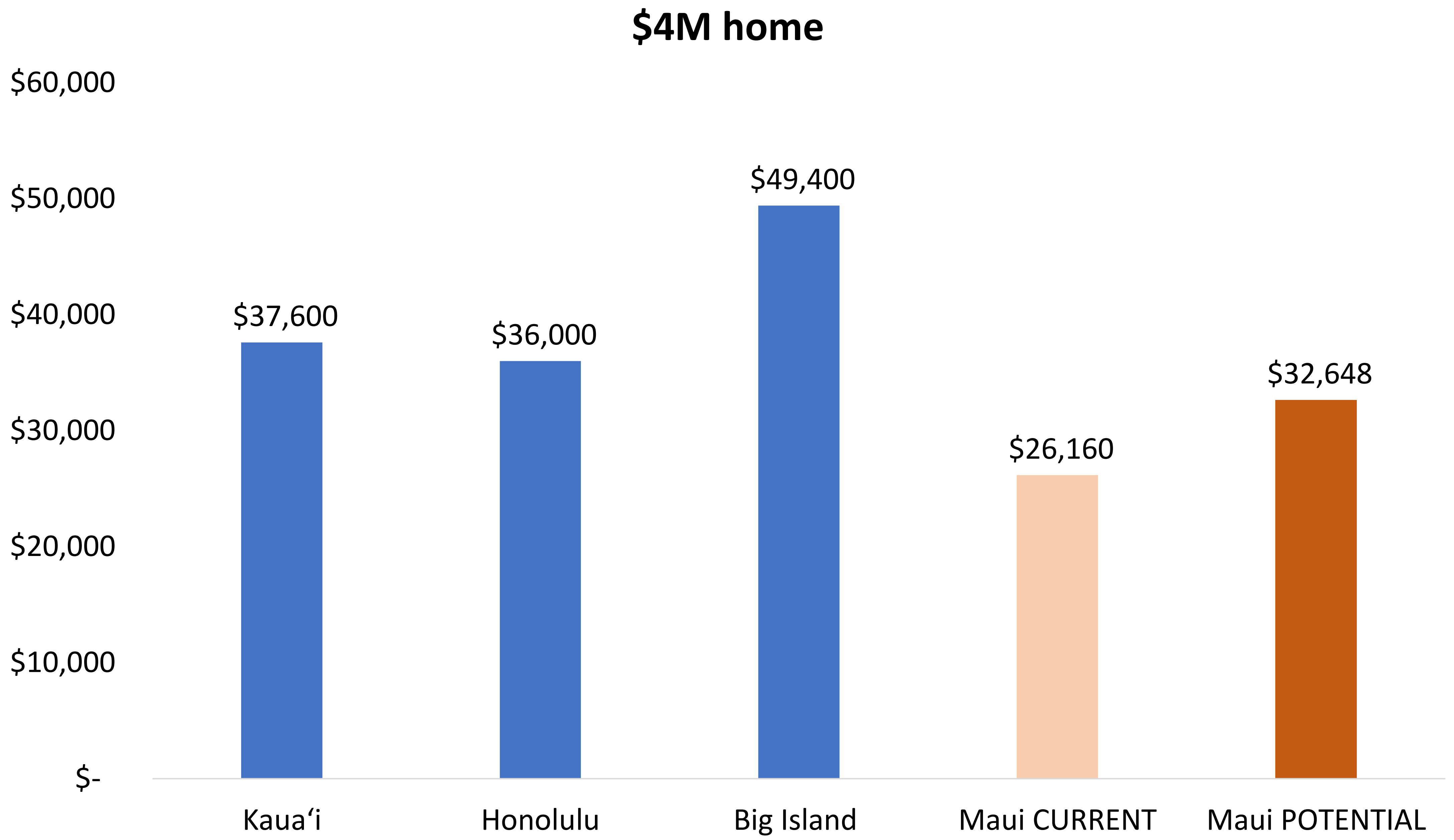
This would provide the County with sufficient resources to fund the $1.169 billion plan and repay affordable housing bonds.

Potential Sources:

- Second homes over $3 million to pay $300 more per month
- Short-term vacation rentals to pay $3 more per day
- Dedicate TAT revenue to AHF
- Others

RPT Comparison with Other Counties




$4M home
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
$37,600
$36,000
$49,400
$26,160
$32,648
Kauaʻi
Honolulu
Big Island
Maui CURRENT
Maui POTENTIAL

Enable Sale of Bonds

This would allow the County to leverage its revenue by an estimated 20 times pay for primary barriers to affordable housing (1) Community Serving Infrastructure and (2) Housing Support.

1

Sell taxable and non-taxable bonds to borrow money at historically low interest rates

2

Make upfront investments in Community Serving Infrastructure and Local Residents

3

Repay bonds with property taxes and reimbursement of off-site infrastructure for market rate homes when they hook up to County services

Expand Eligible Uses

This would provide the County the tools necessary to target affordability to Local Residents who need it most.

Use	Description	Impact
Down payment assistance grants	Grants up to $150k per local homebuyer on AH List ($200k in Hana, Molokai, Lanai)	Increase # homes for low- & moderate-income homebuyers (61-100% AMI)
Rental housing gap financing	0% interest loans for rental projects at $175k per local renter ($200k in Hana, Molokai, Lanai) includes individual ADUs/Ohana Units	Increase # rentals for very & extremely low-income renters (below 50% AMI)
Existing structure acquisition and rehabilitation	Funding to acquire buildings and rehab them as affordable housing	Maximize use of underutilized structures with access to infrastructure for affordable housing
Planning, design, and construction of units	Funding for pre-development work as	Reduce pre-development and construction costs
Housing counseling services	Grants to HUD housing counseling agencies to populate AH List with qualified Local Residents	More financially qualified renters/homebuyers = Reduced lease up/sales period
Health, cultural, and environmental impact statements	Funding to conduct important resource management studies	Preserve important health, cultural, and environmental resources

Additional Changes

This would ensure implementation by addressing capacity and positioning projects for other public and private funds.

Recommended Change	Impact
Add “Qualified Resident” definition consistent with Bill 111	Aligns Affordable Housing List with AHF grants/loans and maximize use of HUD counseling agencies in process
Allow for DHHC or a contracted third-party to administer grants and loans out of AHF	Improves capacity of county to take action through public-private partnerships
Allow for distribution and redistribution of grant and loans funds out of AHF (i.e. down payment assistance grants, rental housing loans)	Ensures movement of funds to builders in timely manner
Move county financing to subordinate position	Assists builders in leveraging additional public and private capital for AH projects
Reduce interest rates on AHF financing 0-2% (rentals) and 0-3% (homeownership) and defer payment	Assists builders in targeting affordability to extremely & very-low income renters and low- and moderate-income homebuyers
DHHC to establish reimbursement of AHF-funded off-site infrastructure on market rate homes	Invests in high-cost infrastructure upfront and recoup costs on market rate homes

Community Oversight Board

This would increase community engagement and involvement in disbursement and oversight of AHF funds.

- DHHC will be responsible for managing a Community Oversight Board
- Community Oversight Board will be responsible for developing, implementing, and monitoring an affordable housing fund annual plan
- Board shall consist of 9 members with 1/3 private sector representatives, 1/3 community members, and 1/3 public representatives including the affordable housing coordinator in the Mayor’s cabinet and chair of the council’s affordable housing committee
- Board members will serve 5-year terms and be responsible for reviewing, scoring, and recommending grant and loan applications made to the fund
- DHHC shall coordinate and conduct at least monthly Board meetings
- Board members will review DHHC progress in meeting annual plan goals
- DHHC shall propose an affordable housing fund annual plan based on Board member recommendations along with a report on progress in addressing previous year’s plan

Sales Price Guidelines

Under the current affordable housing system, the county imposes sales price guidelines that do not conform with mainstream mortgage standards.

This leaves our local homebuyers unable to use affordable mortgage financing with low down payment options (i.e. FHA) to purchase a home.

Importance of PITI(MI+HOA)

- Monthly mortgage payments = **P**rincipal, **I**nterest, **T**axes, + **I**nsurance
- If homebuyer provides < 20% of purchase price as down payment, homebuyer also pays **M**ortgage **I**nsurance
- Monthly payment as a percentage of gross monthly income = **Front-End Ratio**
- Mortgage programs **require homebuyers to meet a standard Front-End Ratio to qualify** for a mortgage
- Lenders often include **HOA** fees in maximum Front-End Ratio
- **PITI(MI+HOA) matters because lenders use this number to determine how much you are allowed to borrow in a mortgage**

Mainstream Mortgage Standards (FHA)

- 31% maximum Front-End Ratio that includes PITI(MI+HOA)
- Assumes a homebuyer with no compensating factors (i.e. will use all savings for down payment + closing costs and has existing non-housing debt)
- Down payment as low as 3.5% of purchase price
- No or low credit score below 580 allowed (but results in higher interest rates)
- 1 in 2 first-time homebuyers in the United States use the FHA mortgage

Analysis

- County's current sales price guidelines are limited to 30% <u>Principal + Interest ONLY</u> which results in a 36% Front-End Ratio vs 31% FHA <u>Front-End Ratio</u>
- County guidelines do <u>NO</u>T include taxes, insurance, mortgage insurance, and HOA fees which are considered part of homebuyers' monthly payments and used to calculate mortgage qualification
- County guidelines assume homebuyers have <u>$0</u> in additional monthly debts

Lack of conformity with mainstream mortgage standards unnecessarily excludes more of our local residents from being able to attain affordable homeownership.

Comparison

Single-Family Home 80% AMI, 4-pers HH	Current System (Maui County)	Mainstream Mortgage Standards (FHA)
HH Annual Income	$78,000	$78,000
Sales Price	**$382,400**	**$315,196**
Monthly Payment	**$2,336**	**$2,015**
-Principal + Interest	$1,950	$1,683
-Taxes	$92	$79
-Insurance	$104	$90
-Mortgage Insurance	$189	$163
Front-End Ratio **(Monthly Payment/Monthly Income)**	**36%**	**31%**

Assumes 30-year mortgage, 5% down, 5% fixed APR, estimated 5% closing costs

Recommendation

Update County sales price guidelines to limit monthly payment of Principal, Interest, Taxes, Insurance, Mortgage Insurance + HOA fees to 31% to conform with mainstream mortgage standards for FHA.

Under the current affordable housing system, the county imposes separate sales price guidelines that are inequitable for Hana, Molokai, and Lanai homebuyers.

Our Hana, Molokai, and Lanai families are limited to maximum annual incomes that are over 50% the maximum amounts allowed in other districts.

Comparison

Single-Family Home 80% AMI, 4-pers HH	Current System (Maui)	Current System (Hana)	Current System (Lanai)	Current System (Molokai)
HH Annual Income	$78,000	$60,000	$42,872	$34,000
Sales Price	**$382,400**	**$294,100**	**$210,200**	**$166,700**

Limiting the maximum amount of allowable annual household income unnecessarily excludes low-income homebuyers in Hana, Lanai, and Molokai from being able to purchase affordable homes like other homebuyers in the County.

This leaves those who are considered low-income by HUD and would otherwise qualify for affordable for-sale homes in Maui, to be disqualified if they live in Hana, Lanai, or Molokai.

Recommendation

Update County sales price guidelines to apply the same maximum annual household income requirements for all districts in order promote equity for all homebuyers regardless of whether they live on Maui or Lanai, Molokai, or in Hana.

Conclusion

Conclusion

- **To address barriers to affordable housing, County MUST invest in Community Serving Infrastructure and Local People**
- Update the Affordable Housing Fund to **(1) increase annual revenue to $58 million, (2) enable sale of taxable and non-taxable bonds, (3) improve County capacity through public-private partnerships, (4) use grants and loans to target investments in off-site infrastructure and local renters and homebuyers, and (5) increase community involvement and oversight**
- Average investment: $175k (renter); $150k (homebuyer); $200k (renter/homebuyer in Hana, Lanai, Molokai)
- Update County Sales Price Guidelines to **limit maximum monthly payment of PITI(MI+HOA) to 31% of homebuyer's gross monthly income**
- Update County Sales Price Guidelines to **increase maximum allowable household incomes of Hana, Lanai, and Molokai homebuyers to be consistent with HUD and all other Maui homebuyers**