

CommonWealth Builder Program

MassHousing

Homeownership: Encouraging New Construction

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BACKGROUND

While MassHousing has helped more than 70,000 individuals and families in Massachusetts buy their first homes with affordable mortgages – this isn't addressing the whole problem. There continues to be a gaping disconnect between the demand for homeownership housing that is affordable to low- and moderate-income families and the supply of housing whose purchase price is low enough to make a difference.

Even more important is the impact this housing shortage has for borrowers of color. MassHousing has turned its attention to the growing racial homeownership gap in this country – and in Massachusetts. Homeownership is particularly important for minority households, as home equity is more likely to be their only source of wealth creation. Research shows that equity in one's home is the largest source of wealth generation for minority households even when accounting for equity losses during the Great Recession. Beyond the obvious financial motivations, owning a home has social benefits as well.

THE RACIAL HOMEOWNERSHIP GAP

Sadly, Massachusetts has the sixth highest racial disparity rate for homeownership in the country, which means minority households cannot take advantage of these benefits. In fact, as of 2018 a White household in Massachusetts was twice as likely to own a home than a household of color. The Commonwealth's rate of non-white homeownership is also lower than the national average. Nationally approximately 46.4% of minority households are homeowners compared with 34.4% in Massachusetts. The gap has also increased by more than 7% in just the past 20 years, erasing the gains made in the second half of the 20th century and then some.

There are numerous factors that perpetuate this gap and make eliminating it a serious challenge. First are barriers to access that households of color face – including income and racial discrimination. The annual median income for households of color is about \$30,000 less than White households and income growth rates for non-White households lag significantly. But even for households with sufficient economic purchasing power, research shows that Black and Hispanic or Latino households are more likely to be denied a mortgage than White households of the same income. Another financial barrier that households of color face is a lack of access to what some might refer to as the “bank of mom and dad” during the homebuying process. Decades of discriminatory real estate and lending practices have kept many families of color from attaining homeownership. White first-time homebuyers are more likely to receive financial support from their families for the purchase of a home while homebuyers of color are more likely to be first generation buyers with limited access to informational and financial resources. These barriers place minority households at a significant disadvantage, especially in the Commonwealth's real estate market, where the median sale price for a single-family home is \$385,000 and has continued to rise.

Additionally, there is an insufficient supply of homeownership units in the Commonwealth – particularly in markets where non-White households are expressing a desire to purchase, and at prices that those would-be buyers can afford. While the need for affordable starter homes exists across the state, it is particularly strong in communities of color that historically have not been well-served by the market and have seen alternating cycles of both disinvestment and predatory lending.

In Massachusetts, these issues converge most acutely in certain markets, particularly the 26 cities that have been defined as “Gateway Cities.” Historically, these moderately-sized regional hubs were home to industry that gave low-income households a shot at upward mobility. As manufacturing jobs disappeared, these cities have struggled to attract new investment and economic opportunities for their residents. The municipalities share some common characteristics including: a population greater than 35,000 and less than 250,000, a median household income below the Commonwealth's average and a rate of educational attainment of a bachelor's degree or above that is below the Commonwealth's average. Moreover, Gateway Cities face a different set of economic challenges than other

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Commonwealth Builder Program
Homeownership – Encouraging New Construction**

communities in Massachusetts. The 1.8 million citizens of the Commonwealth who reside in the 26 Gateway Cities represent about one-quarter of the state's population and include: 37% of the state's foreign-born residents; 44% of the state's population living in poverty; 47% of the state's population without a high school credential; and 51% of the state's linguistically isolated residents.

Even more troubling is the damage done by predatory lenders during the last housing crisis. In 2010, the Gateway Cities contained 22% of the state's owner-occupied housing stock but saw 40% of all the state's foreclosure activity (2010-2012). Homeownership rates in the Gateway Cities (and Boston) also lag compared with rates across the rest of the state.

Yet MassHousing's homeownership lending data demonstrates that there is strong demand from creditworthy non-White homebuyers for homeownership opportunities in Boston and the Gateway Cities, far outpacing the supply of quality homes that are affordable to such households. Families are looking to invest in these communities in meaningful ways, but they simply cannot find the opportunities to do so. Incentivizing new investment in Boston and the Gateway Cities will directly address the state's racial homeownership gap, while creating the conditions necessary to build generational wealth.

THE RESPONSE

MassHousing is acting on both sides of the issue. In 2018, MassHousing established the Racial Equity Advisory Council for Homeownership (REACH) which seeks to narrow this racial homeownership gap through demand-side interventions including down payment assistance, homebuyer training, and marketing of high-quality mortgage products. The work of REACH led MassHousing to participate in an important and ongoing dialogue on this topic with Massachusetts Governor Charlie Baker and the state legislature's Black and Latino Caucus which brought the issue of the disparities for borrowers of color into clearer focus.

The challenge came in identifying the pool of funds for a homeownership production program while at the same time developing program guidelines and parameters that would help to serve the borrower population that needed our help the most, without violating fair housing laws. The Agency decided that the way to reach its target borrower group could be geographic, based on our research about communities of color and where borrowers are looking to purchase. The state has roughly 6.8 million residents, 73% of whom are non-Hispanic White residents. Boston and the Gateway Cities are home to 50% of the state's population and 75% of all residents of color live in Boston and the Gateway Cities. Because of this, MassHousing wanted to target a production program to communities where our data indicates borrowers of color are seeking homeownership opportunities and which have also been particularly underserved.

RENTAL PRODUCTION BECOMES THE MODEL FOR HOMEOWNERSHIP PRODUCTION

Since 2016, MassHousing's Workforce Housing Program – funded by the Agency's Opportunity Fund – has provided subsidy to 45 projects, supporting the creation of 4,030 new rental housing units, 1,090 of which are affordable to moderate-income households. Moreover, this program has successfully engaged the development community to fill a market gap and create new rental homes at a missing middle price point.

Because of the success of this program, in July of 2019 Governor Baker announced that his administration would recapitalize MassHousing's own Opportunity Fund with \$86 million, of which \$60 million would be targeted to address the racial homeownership gap. In large part, MassHousing was selected to deploy these funds on the Commonwealth's behalf due to the Governor's confidence that the Agency has the capacity to develop and implement a program quickly that would appropriately and effectively respond to that gap. The Governor's faith in MassHousing was well-placed, and in the fall of 2019 – less than four months after the administration's announcement – the Agency launched the Commonwealth Builder Program.

**MassHousing
CommonWealth Builder Program
Homeownership – Encouraging New Construction**

MassHousing's new CommonWealth Builder Program provides market-based subsidies to support the construction of new moderate-income homeownership opportunities in the state's 26 Gateway Cities, the City of Boston, and Qualified Census Tracts throughout the state. Specifically:

- Funds from the CommonWealth Builder Program will subsidize the production and purchase of homes restricted to moderate-income home buyers, with restrictions set anywhere between 70% - 120% of the Area Median Income (AMI).
- All projects will be either new construction or adaptive reuse, adding new units to the housing supply; generally scattered site proposals will not be considered except in very limited circumstances.
- The program is designated for first-time homebuyers and there will be no age restrictions.
- The Agency utilizes a similar funding model to create deed-restricted rental units. The Agency will fund projects on a rolling basis. Competitive applications will utilize local matching funds.
- MassHousing will target homeownership projects of scale: a 20-unit minimum, with at least 10 workforce affordable units.
- MassHousing generally anticipates committing no more than \$5 million, and \$150,000 per unit in subsidy, to a single project. The subsidy is disbursed at end-buyer closing.
- The Agency will prioritize mixed-income developments, those containing units restricted at 70% of AMI, and those requesting less than \$150,000 per unit.
- Affordability restrictions will be in place for 15 years after which time the restriction will be erased. This is one of the most important program guidelines to help borrowers of color build wealth. Maintaining affordability for 15 years helps with neighborhood stability and growth – but after 15 years – borrowers should be able to benefit from the asset that is their home. In the City of Boston proper, affordability restrictions will be 30 years with an option for an additional 20 years, due to the City's affordability covenants.
- This program will require a demonstrated municipal commitment which could be in the form of a subsidy, land, or infrastructure and no other state resources may be used (such as Affordable Housing Trust Funds.)

MassHousing's Homeownership Division will also support this new subsidy program with a combination of end loan financing, down payment assistance loans, mortgage insurance and targeted marketing in the Gateway Cities to ensure that borrowers of color are made aware of this new opportunity for homeownership.

MassHousing announced this new program in November of 2019 and invited members of the developer community to the Agency for a large-scale presentation and Q&A with the Vice-President of Multifamily Programs. Additionally, our Government Affairs team has been conducting meetings with the Mayors of the Gateway Cities to outline the new program and foster their interest in the opportunity for new affordable homeownership in their communities.

As of June of 2020, MassHousing already has 22 deals in its pipeline representing 629 units and just under \$48.5 million in financing.

CommonWealth Builder is a double-bottom-line program that will make a meaningful difference in homeownership opportunities in Massachusetts. It is both a supply-oriented program, which will grow the state's stock of moderately-priced starter homes, and an asset-building program, which will help build intergenerational wealth in underserved communities. MassHousing believes that this is the largest state-level program supporting workforce homeownership, and the most significant effort aimed at closing the statewide racial homeownership gap.



CommonWealth Builder Program Guidelines

October 8, 2019

Massachusetts is experiencing rapid economic growth and a surging population, and many of its moderate-income households are expressing a demand for high-quality homes to purchase. However, in neighborhoods across the Commonwealth, the market is not producing an adequate supply to meet that demand; this is particularly true in communities of color – including Gateway Cities – where moderate-income households looking to purchase their first home well outnumber the appropriate stock.

Nationwide, the rate of homeownership among white households outpaces rates among households of color by 30 percent. The gap has increased by more than 7 percent in just the past 20 years, erasing the gains made in the second half of the 20th century and then some. In Massachusetts, the homeownership rate for people of color is half what it is for white residents – a statewide disparity that is the sixth greatest in the nation.

The lack of moderately-priced inventory in many communities is yet another obstacle that prevents minority homebuyers from investing in a home of their own and may widen the racial homeownership gap further still. Yet absent a market incentive, demand will likely continue to outpace supply in communities of color across Massachusetts.

MassHousing seeks to contribute to the solution through the creation of its CommonWealth Builder Program. The program, based on the Agency's successful Workforce Rental Housing Program, dedicates \$60 million to create new affordable homeownership opportunities for households earning between 70% and 120% of the area median income (AMI). This program will help increase the homeownership opportunities for households of moderate means, and will support vibrant communities, a strong economy and a stable workforce in the Commonwealth.

A. Program Requirements

CommonWealth Builder funds will be made available for homeownership projects in the Commonwealth located within (1) the City of Boston, (2) Gateway Cities, and (3) Qualified Census Tracts (QCTs). Requests for funding from the Commonwealth Builder Program may not exceed \$150,000 per Workforce unit, with a per project maximum of \$5 million. Preference will be given to projects that request less than \$150,000 per Workforce unit. All projects funded by the City of Boston will comply with applicable program guidelines as may be required by the City.

1. **Project Type.** New construction or adaptive re-use.
2. **Unit Type.** Single-family homes or condominiums with professional management.
3. **Single Site.** The entire project must be on a single site.
4. **Minimum Number of Units/Number of Subsidized Units per Project** – 20/10.
5. **Age Restriction.** None allowed.

6. **Targeted Affordability.** The Commonwealth Builder subsidy will be available for units restricted to households earning from 70% to 120% of AMI. Of the total homeownership units in a project, at least 25% must be units eligible under this subsidy program. There will be a preference for mixed-income projects and projects with units restricted at 70% of AMI.
7. **Affordability Restriction.** In the City of Boston, following the Department of Neighborhood Development's (DND) Long-Term Affordability Policy, affordability terms must be 30 years with a 20-year extension at the City's option.¹ The affordability restriction for developments in the rest of the Commonwealth must be at least 15 years.
8. **Sales Price Differential Between Market and Workforce/Subsidized Units.** In general, the program's intent is to fund projects where the differential is 1.25 to 1, but projects that do not meet this qualification will be considered on a case by case basis.
9. **Maximum Sales Prices for Workforce Units.** Sales prices will be set at levels affordable to first-time homebuyers within the targeted affordability requirements.
10. **Maximum Amount of Developer Overhead/Profit per Project.** City of Boston – 5%/5% and in the rest of the Commonwealth 10%/10%.
11. **Deed Requirements.** In the City of Boston, DND's Affordable Housing Covenant will be in effect. In the rest of the Commonwealth, the Fannie Mae deed rider will be in effect.
12. **Additional Subsidy Commitments.** Commitment of local subsidy in some form from the respective municipality is required; MassHousing does not anticipate that projects will rely on any other state subsidies or subordinate resources (e.g., Affordable Housing Trust).
13. **Project Team.** For projects in the City of Boston, the project team will need approval from DND² and all members must be in good standing with MassHousing and its quasi and public affiliates. For projects located in the rest of the Commonwealth, the project team must (1) have a history with at least one development of a similar scale, (2) be in good standing with MassHousing and its quasi and public affiliates, and (3) demonstrate financial capacity including meeting MassHousing's equity and working capital requirements.
14. **Design.** Design will be reviewed by MassHousing and schematic design level drawings will be required at application. Preference will be given to those projects that demonstrate creative energy efficiency and sustainable measures in their design.
15. **Inclusionary Units.** Units required for inclusionary zoning purposes are not eligible for this subsidy.
16. **Subsidy Disbursement.** Proceeds from the Commonwealth Builder subsidy will be disbursed in conjunction with the conveyance of the units to the end-buyers.
17. **Application Fee.** \$7,500
18. **Approval of Condominium Documents.** For condominium projects, MassHousing will review and approve the condominium documents for secondary market requirements.

¹ Found in 21. Long-Term Affordability Policy (revised July 2018):
<https://drive.google.com/file/d/13IRbWKVL00y9VsVmTZ3rD4uUvZ0lregv/view>

² Found in 15. Development Team Selection Policy (revised July 2018):
<https://drive.google.com/file/d/1eSdnub229tKAoR5whV-ih6pRIfwMC4Ca/view>

B. Homebuyer Requirements

In the City of Boston

For units in the City of Boston, first time homebuyer requirements will be established by DND.

In the Rest of the Commonwealth

Applicants must be first-time homebuyers. *First-time homebuyer* is defined as an individual or household, of which no household member has had an ownership interest in a principal residence at any time during the three-year period prior to the date of qualification as an eligible purchaser, except any individual who is a displaced homemaker as defined by the Massachusetts Department of Housing and Community Development (DHCD).

Homebuyers must (1) qualify for a conforming loan at industry-standard interest rates, (2) provide a minimum 3% down payment or qualify for an approved Down Payment Assistance program, (3) pay closing costs, (4) complete homeownership counseling by the time of purchase, and (5) have other assets, excluding qualified retirement plans, of less than \$100,000.

C. Application Process

These resources will be made available to projects on a rolling basis until such time as the Commonwealth Builder funds are committed. Applications must include the following sections from the OneStop:

- Project Description
- Development Team Summary
- Sources and Use of Funds
- Operating Pro-Forma
- Signature Page

In addition to the OneStop, we will require the following:

- Site Information
- Environmental Information
- Evidence of Zoning Approval
- Evidence of Site Control
- An Affirmative Fair Housing Marketing Plan (AFHMP)
- A description of how the project will meet the market need(s) identified in the opening statement and the process to identify and qualify potential buyers.
- Evidence of municipal support
- Market study

MassHousing Commonwealth Builder Program Guidelines

- Construction Lender Term Sheet
- Information on the developer's background
- Evidence of developer financial capacity
- Schematic Design level drawings and preliminary specifications

Please contact a MassHousing Rental Business Development Relationship Manager listed below:

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