

Community Partners Loan Pool Adapts to Changing Needs

North Carolina Housing Finance Agency
Homeownership: Empowering New Buyers

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The Community Partners Loan Pool program (CPLP) provides affordable and sustainable home ownership opportunities to qualified low-income buyers who are typically underserved in the market. Partnering with nonprofits and local governments across North Carolina, CPLP offers down payment assistance up to \$50,000 (maximum of 25% of the purchase price) in an interest-free, deferred subordinate mortgage to home buyers with incomes below 80% of the area median income (AMI). Funded with HOME Investment Partnerships funds, NC Housing Finance Agency designed CPLP to be combined with the Agency's NC Home Advantage Mortgage™ to seamlessly layer with other down payment assistance, including the NC 1st Home Advantage Down Payment, a down payment assistance product and local down payment and closing cost assistance programs. CPLP down payment assistance is also designed with flexibility to ensure home buyers using USDA 502 loans remain eligible.

In response to declining production caused by the increased cost of housing, CPLP's down payment assistance maximum was increased in 2023 from \$35,000 to \$50,000 to ensure meaningful home ownership opportunities remained for those underserved in the market. With this funding increase, North Carolina saw an immediate return to the amount and pattern of production the state had seen prior to pandemic-era price hikes and sharp increases in interest rates. Moreover, in 2023, production roughly equaled the previous two years combined. By returning the program's purchasing power to be market feasible, the narrowing of the racial gap of home ownership continued, a key feature of the mortgages produced prior to and after the recent changes in the program. By making quick programmatic responses to the shifting market, the role this program serves in providing underserved North Carolinians a chance to purchase a home continues.

The NC Housing Finance Agency's (the Agency) use of on the ground partners, in particular those that offer and host home buyer counseling, is a critical ingredient to the success of the CPLP program. Roughly 90% of CPLP's nonprofit and local partners are also HUD-approved counseling agencies with the remaining partners having close relationships with counseling agencies. By baking counseling and community partnership into the design and fabric of the program, CPLP delivers sustainable home ownership.

Without CPLP down payment assistance, many potential low-income buyers would be prevented from purchasing a home due to a lack of sufficient cash on hand to cover closing costs and the down payment. This is especially true in recent years when housing prices have increased dramatically statewide. By increasing the CPLP down payment assistance and increasing layering from local partners, CPLP provides enough assistance to expand the options of homes available to income-eligible households.

Decline in Home Ownership Opportunities

Using the National Association of Home Builders (NAHB) Housing Opportunity Index, a measure of housing affordable to the median income household, Q4 2023 saw the lowest accessibility to home ownership since the NAHB's new metric was deployed after the Great Recession, with just 37.7% of all homes affordable to households earning area median income. In contrast, five years earlier, in Q4 2019 63.2% of homes were affordable to median income households. Home prices grew faster than incomes (median price was \$279,000 in 2019, rising to \$375,000 in 2023) with accessible home ownership

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Home Ownership: Empowering New Buyers

opportunities further exacerbated by a swift rise in interest rates beginning in 2022. From Q4 2021 to Q4 2023, interest rates more than doubled (from 3.16% to 7.44%).

With these tandem pressures, potential buyers were left chasing ever increasing house costs putting home ownership out of reach. The NC Housing Finance Agency's CPLP program was not immune to these pressures. For those in the CPLP program, primary mortgage loan interest rates increased from a low of 2.25% in 2021 to around 5.875% in 2023. These increases doubled the monthly interest costs to the borrower, putting homes that were recently accessible to eligible households out of reach. (Figure 1)

In the years leading up to 2020, CPLP grew in partners and production, reaching its peak production volume in 2019. However, as with multiple facets of the housing market, the pandemic affected the success of this program as well. In 2021, production started a steep downward trend with a 42% decline in loan production (from 284 in 2020 to 167 in 2021) (Figure 2) as homes affordable to income-eligible home buyers became increasingly scarce. In 2022, the downward decline continued with a pronounced additional 51% drop in production from the prior year.

The home median and distribution of sales prices in the CPLP program followed a consistent trend before 2020 (as seen in Figure 3). This trend followed the broader market direction and dynamics, with an incremental increase in median sales price and a distribution that reflected fewer homes in the lowest prices. However, beginning in 2020, when prices rose sharply and then additionally in 2022 when interest rates drastically increased, the sales price of homes within the CPLP program hit an artificial ceiling as seen by a stagnating distribution and median sales price. Simply put, the amount of funding available was not enough to allow lower income buyers to keep pace with the market.

A Solution that Works

It was with this program production decline and housing market backdrop that North Carolina's CPLP program saw the need to take action to ensure the program continued to bring realistic home ownership opportunities to qualified households with modest incomes, a critical piece to meeting the Agency's strategic objective to identify changes to our home buyer down payment assistance and lending programs to enhance usage through the state with the goal of increasing the cumulative number of households served by 25%.

To increase access to home ownership, assist underserved populations and to align with the Agency's strategic plan, CPLP increased its down payment assistance maximum to \$50,000 (from \$35,000). This gave access to the, now, higher priced homes by providing the necessary front-end funds and by lowering the loan principal financed at these higher interest rates. In addition, CPLP works with many community partners that provide additional local funds to layer on top of NC Housing Finance Agency's resources.

CPLP saw immediate results following this change. (Figure 4) Following the increase in assistance through CPLP in 2023, the median sales and distribution immediately rebounded back to its upward trajectory, showing that the increase in funding shattered the artificial ceiling inhibiting home buying for lower income families (see Figure 3). Not only does did the CPLP programmatic change course-correct for the new housing market, but it allowed CPLP to continue assisting traditionally underserved borrowers.

Narrowing the Racial Home Ownership Gap

The CPLP program is particularly adept at reaching underserved borrowers. North Carolina, as with most of the country, has a large home ownership gap across race and ethnicities. White and Black, Indigenous, People of Color (BIPOC) households have almost opposite profiles when it comes to housing tenure in North Carolina, with 38% of BIPOC households owning and 38% of white households renting (Figure 5). More, in North Carolina, only 33% of low-income homeowners identify as BIPOC with the remaining 67% being white (Figure 6). For the CPLP program, it is flipped and then some, with 80% BIPOC home buyers and the balance of 20% white. The CPLP program, by meeting the needs of underserved potential buyers, has a compensatory effect that ultimately can narrow the racial home ownership gap in North Carolina. Closing the roughly 25 percentage point gap requires that properly designed mortgage products, home inventory and access exist to encourage and support qualified buyers entering the market.

Drilling down into one market, the Agency and DreamKey, an Agency partner in Charlotte-Mecklenburg County, provided local funds to augment the assistance available with the Agency providing down payment assistance through CPLP and its NC Home Advantage Mortgage™ program that was layered with local assistance available through DreamKey. This allowed stacked benefits that not only increased borrower access and loan production in 2023 with the new funding, but also expanded the geography served in Mecklenburg County. 2023 production rebounded with 31 loans, 11 more loan than the previous two years combined. Additionally, 13 zip codes were served in 2023 compared to 9 zip codes across both 2021 and 2022 production. Mecklenburg County, with BIPOC households making up 57% of the county's low-income households, had 94% of the CPLP loans made to BIPOC households, narrowing the home ownership gap.

Crafting a program that can provide deeper front end purchasing power ensures that income eligible buyers can access an increasingly expensive market, as evidenced by a more than doubling of production in 2023 from 2022, when potential homeowners experienced the twin pressures of increased prices and interest rates. The NC Housing Finance Agency's CPLP program quickly and successfully responded to these new market dynamics by making use of strong local partnerships and increasing the assistance it provides to low-income households.

Altogether, CPLP was able to double its annual production, help close the home ownership gap, and expand its geographic service area, even when the housing market was hit with increased sales prices and increased interest rates.

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Figure 1

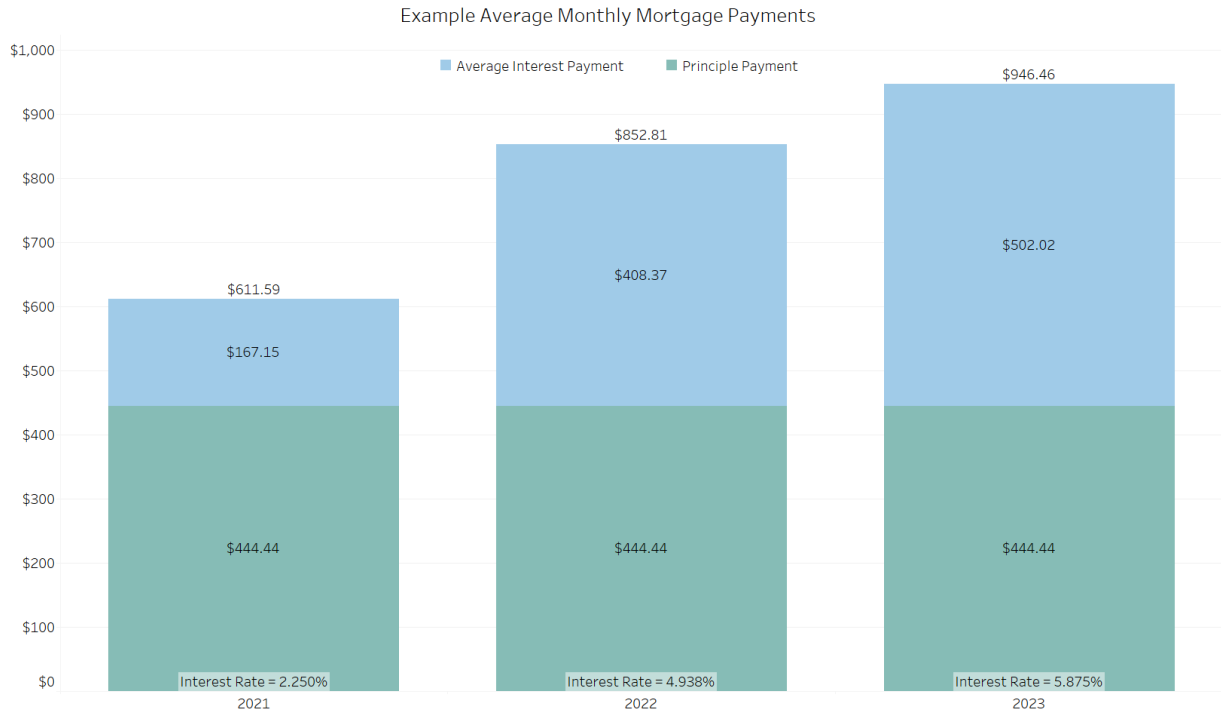
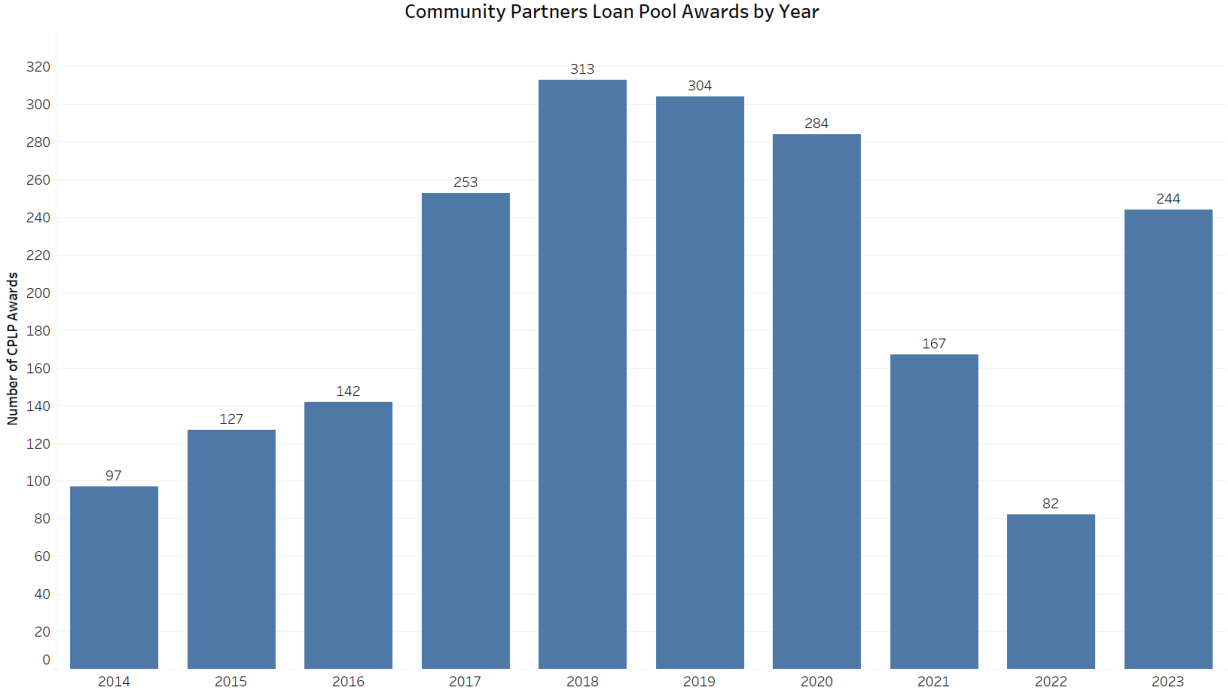


Figure 2

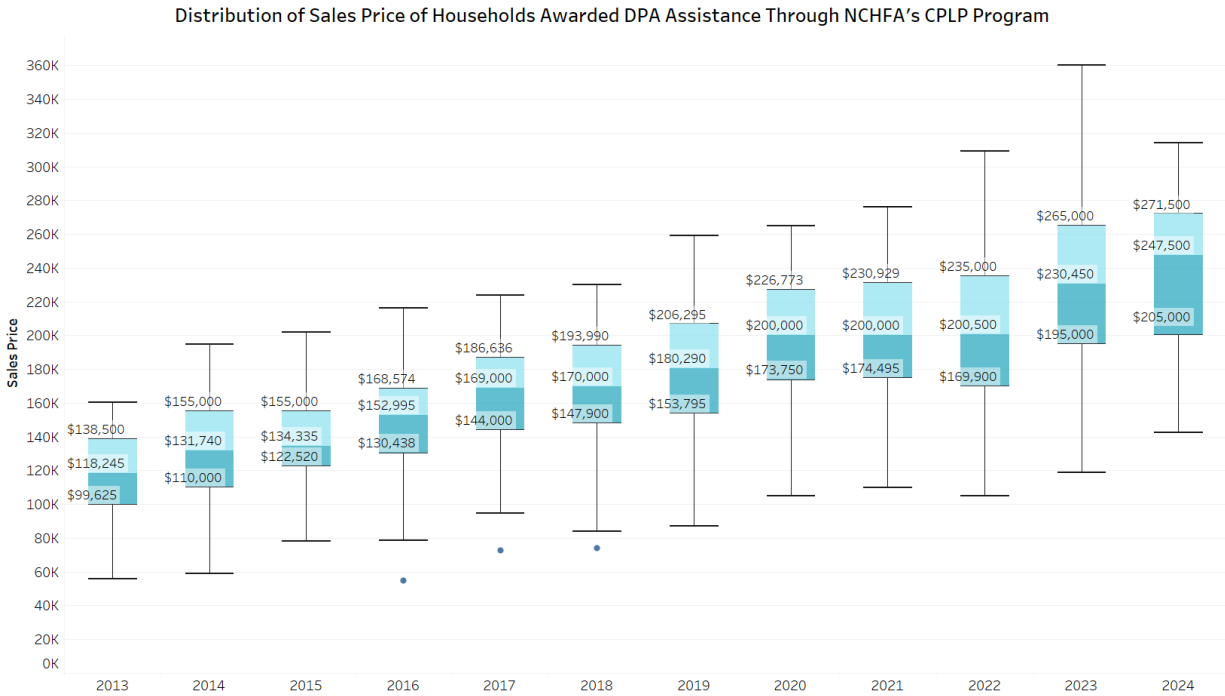
NC Housing Finance Agency
Community Partners Loan Pool Adapts to Changing Needs
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Source: NCHFA analysis of Agency data

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 Community Partners Loan Pool Adapts to Changing Needs
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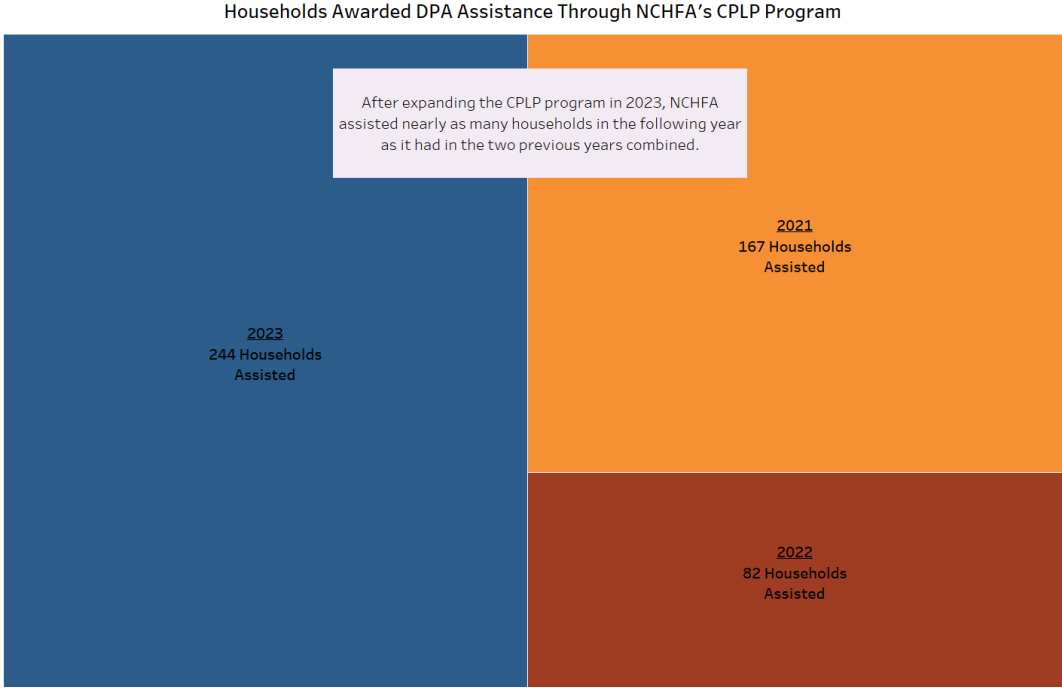
Figure 3



Source: NCHFA analysis of Agency data

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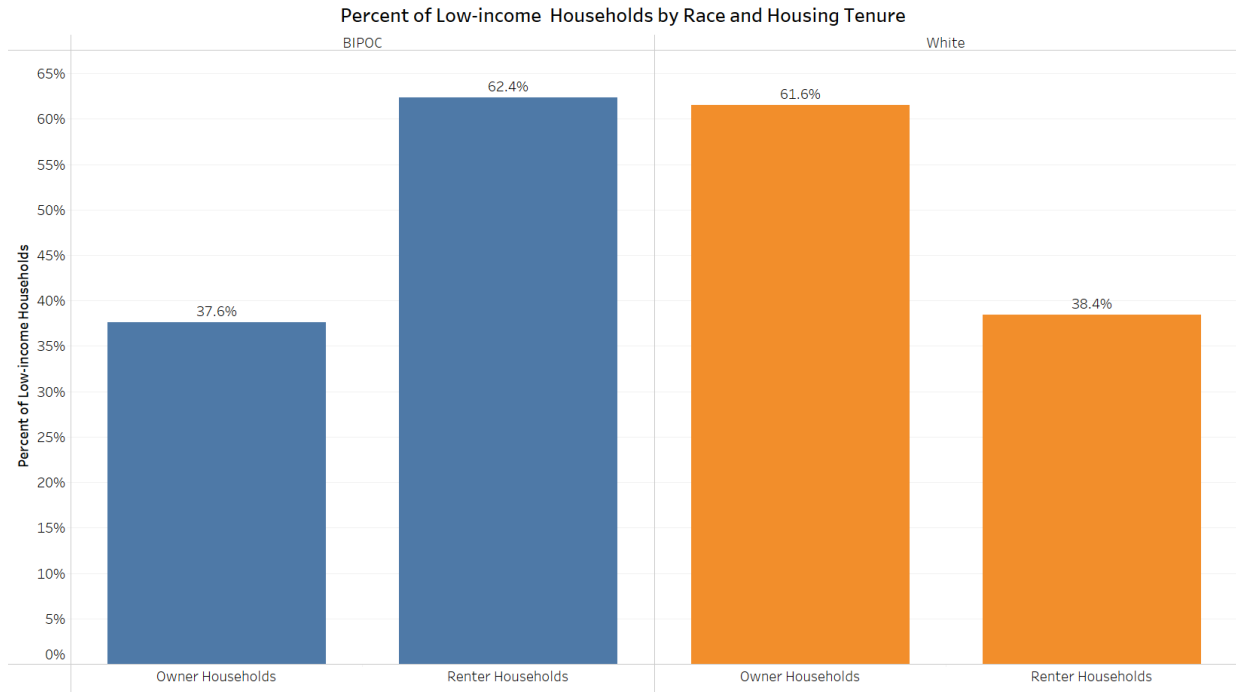
Figure 4



Source: NCHFA analysis of Agency data

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Figure 5



Source: NCHFA analysis of 2022 1-year PUMS data. Cost burden is defined as households spending 30% or more on housing costs.

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Figure 6

