

Diamond State Community Land Trust

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RE. NSP3 Substantial Amendment: Comments

Dear Kim:

Thanks for the opportunity to comment on the proposed NSP3 implementation plan.

GENERAL COMMENTS:

We applaud the general approach described in the draft Amendment for investing NSP3 funding in Delaware. Conducting this program through DSHA statewide and linking it with the bond program and FHA 203(k) mortgages should greatly simplify the process. It will be interesting to see how many buyers come forward to take advantage of this unique opportunity. The market is reeling from the continuing foreclosure crisis and many potential buyers are simply not willing to enter the market now no matter how favorable home prices and mortgage interest rates. The uncertainty of the local and national economy and fear of job loss, we are finding, are the main underlying concerns of many families who would otherwise be jumping at homeownership at these advantageous terms.

Uncertainty of future Federal funding given the current discord in Congress, we believe, makes it even more important that Delaware do all that is possible to make the millions of dollars from the three NSP programs go farther, work longer, and serve more low-income Delawareans. CDBG funds in FY 2012 are likely to be cut. There is no assurance that HOME funds in future years will remain stable. There is even discussion in Congress about pulling back current outlays. So NSP3 may be the last serious federal funding available to Delaware over the next few years.

Permanent affordability, under the community land trust model, is the most cost-effective method of providing homeownership. In our reading of the NSP3 implementation plan we found no mention of permanently affordable CLT homes and no requirements or incentives to exceed the HOME minimum standard of 15 years. That, in our opinion, is the major weakness of this proposed Amendment.

SPECIFIC COMMENTS & RECOMMENDATIONS:

1. Section 2 calls for moving “approximately 145 homes from foreclosure to either homeownership or affordable rental.”

We recommend that DSHA designate one-third of the homeownership opportunities (48 units) to community land trust homeownership. This change would increase the number households served from 290 to 866, tripling the number of families served. The following table illustrates the assumptions and benefits of this recommendation:

NSP3 as Currently Proposed in the Amendment				
	Units	Affordability Period	Unit Years *	# HHs Served **
HOME Minimum Affordability Controls	145	15 years	2175	290
TOTALS	145		2175	290
NSP3 as Recommended by Diamond State				
	Units	Affordability Period	Unit Years *	# HHs Served **
HOME Minimum Affordability Controls	97	15 years	1455	194
CLT Homes	48	99 years	4752	672
TOTALS	145		6207	866

* Unit years (the # of years a home is actually affordable) is a more accurate measure of investment effectiveness than units created. Discussions are underway at HUD about adopting this broader measure.

** The average tenure of CLT homeowners is about 7 years, the same as the market at large.

2. Section 3, Definition of Long-Term Affordability.

We question DSHA’s definition of long-term affordability. Based on the plan, the affordability standards conform with HOME minimum requirements for Delaware’s NSP3 program. If it is DSHA’s intent to create “Long Term Affordability” then we recommend that the Program include a substantial portion of permanently affordable homes. In its current form, the use of the terminology “long term affordability” is misleading.

We highly recommend that investment of NSP funds over \$40,000 in a home be required to be made permanently affordable under the CLT model. Otherwise fifteen years after NSP3 there will be no discernible trace of or lasting impact from the \$5,000,000 investment. The investment

principle should be - the greater the public investment, the longer the benefit should last. Serving more low-income families over time is surely a substantially superior investment of NSP3 funds.

The last paragraph in the Long-Term Affordability box states that “DSHA is exploring assisting moderate - and low-income families wishing to purchase foreclosed homes in more stable neighborhoods, within target areas, to do so with retention agreements that will provide long-term affordability.”

It is not clear to us what “long-term affordability” in this section means. If it is referring to permanent affordability under the community land trust model then it would be better for that to be stated specifically. Otherwise, based on the definition of long-term affordability in the section above, we assume that this means adhering to the HOME Minimum Standards. We recommend clarification of the meaning in this section of the Amendment.

3. Section 4, Low-Income Targeting. To meet the 25% of funding serving 50% AMI & below requirement - the Amendment proposes developing five homes for affordable rental at an average cost of \$250,000 per house = \$1,250,000, to serve five families at any one point in time.

\$1,250,000 invested in CLT homes could produce 15 permanently affordable owner-occupied homes serving 15 families initially and approximately 210 families over a 99-year time frame - with all families at 50% AMI and below. About half of current Diamond State CLT homeowners have combined family incomes of 50% or below. Making homeownership truly affordable for families below 50% AMI is certainly not easy, but the CLT model makes it more attainable and it contains built-in protections that traditional first-time buyer programs generally do not. The results speak for themselves -

- the foreclosure rate among CLT homeowners is 1/8 the national rate*
- 67% of CLT homeowners move on to market rate homeownership -- a remarkably higher success rate than first-time homebuyer programs (after 5 years only 50% are owner-occupants of any home, below-market or market-rate)*
- CLT homeowners build wealth and enhance family stability*

We recommend devoting the \$1,250,000 to 15 CLT homes instead of 5 affordable rentals. Fifteen permanently affordable owner-occupied homes is a far superior investment, in our opinion.

Special Needs Populations. The desire to serve special needs populations with NSP3 funding can be enhanced through the CLT model. The community land trust, in partnership with special needs organizations (SNO), can effectively hold homes in its inventory with a first preference given to the SNO when homes are re-sold -- substantially reducing the SNO's need to seek additional funding for development of more homes going forward. We have this understanding in place with ARC of Delaware for future homes.

CONCLUSION:

Diamond State is currently working through national connections to bring additional funding to our state. If permanently affordable CLT homes were specifically included in Delaware's NSP3 Amendment to HUD, the opportunity for additional funding or Delaware would be significantly enhanced.

Thanks again for the opportunity to comment. We would be glad to be involved in any discussions about incorporating the community land trust model into NSP3 Delaware.

Sincerely,

Van Temple
Executive Director

cc. Anas Ben Addi
Ruth Sokolowski