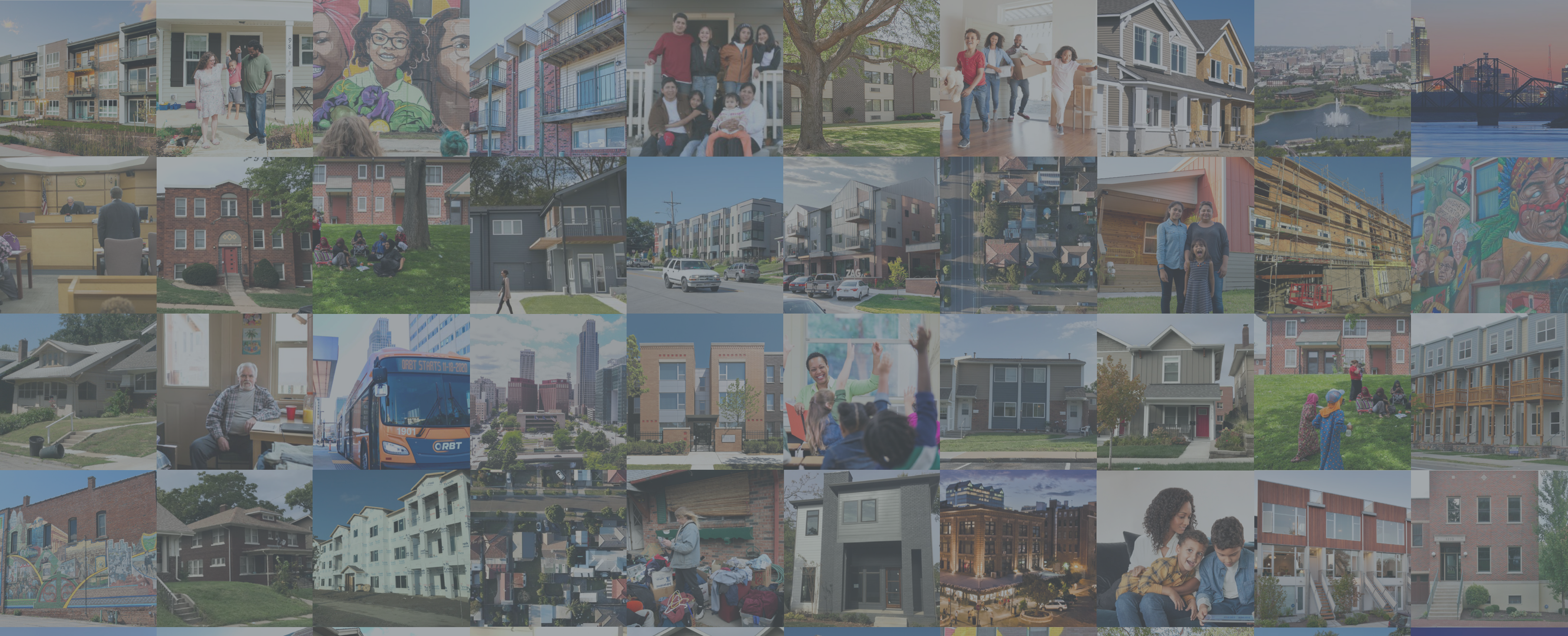
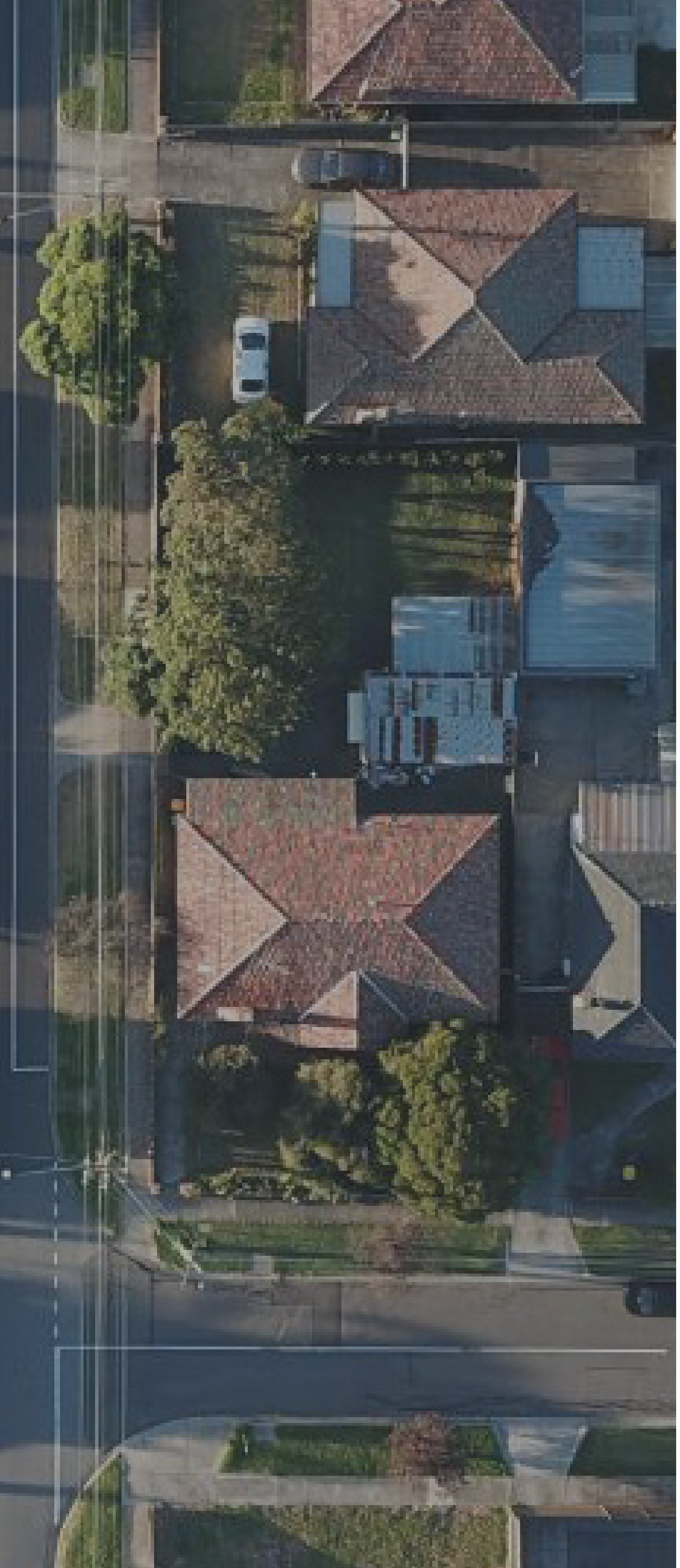


Housing Affordability in the Omaha and Council Bluffs Area

Case Studies for Recommended Initiatives

April 2021



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Case Study

Tenant Right to Counsel in Cleveland, Ohio

Cleveland's Right to Counsel program represents a major step to improve housing stability for households experiencing poverty. The ordinance and its implementation are the result of a years-long effort to establish the buy-in, shared understanding, and resources needed for success.

Cleveland became the first city in the Midwest to establish a tenant right to counsel for all families with children who have incomes at or below the federal poverty level in 2019. In combination with emergency rental assistance, this new law significantly expanded supports available for households facing eviction—especially critical during the COVID-19 crisis.

While Cleveland's right to counsel is still early in its implementation, the initiative sheds light on how leaders could approach a similar effort in the Omaha and Council Bluffs area.

Catalyzing the Idea

Beginning in 2017, leaders in Cleveland's legal aid, philanthropic, and social service communities started a conversation about the damaging impact of evictions on households and the broader community. Following a community read of Matthew Desmond's "Evicted" hosted by the Cleveland Public Library, the Legal Aid Society of Greater Cleveland was awarded support from the Sisters of Charity Foundation of Greater Cleveland to sponsor a fellow. This fellow—Hazel Remesch—was funded for 18 months to advance an innovative idea with potential for great social impact.

Legal Aid had deep knowledge of eviction law, and knew the pivotal role that counsel plays in an eviction outcome. They also had the experience to know that other supports (such as rental assistance) are often needed to successfully resolve an eviction case. With the support of Legal Aid, Remesch helped to push forward the right to counsel concept, coordinating with various partners in the community.

Legal Aid formed a local advisory committee with representatives from City Council (including, importantly, the Council President), members of the local bar association, and representatives of community groups. This committee carefully examined local data on evictions to understand common factors in eviction cases, and identified what supports (in addition to counsel) would best help prevent an eviction judgment. Two studies by Case Western's Center on Urban Poverty and Community Development documented tenants' experience with evictions, illustrating how evictions contribute to a cycle of housing instability years after a judgment. In addition to tenant legal representation, these studies highlighted the critical role of assistance with landlord-tenant relationships, and emergency rent assistance in combating and avoiding the damaging impacts of eviction. The study found that an average of just $1,200 would prevent families' eviction—a mere fraction of the cost for a stay in an emergency homeless shelter.

The advisory committee also explored tenant counsel models in other cities, including visiting Washington D.C. to learn about their experience with right to counsel. The committee observed D.C.'s housing court docket and met with local council members, to understand how the ordinance functioned and the considerations that went into its development. This experience established buy-in and ownership around the concept that tenant counsel—particularly for households with children experiencing poverty—is a highly cost-effective investment in housing

An average of just **$1,200** would prevent families' eviction.

The top 10 census tracts for eviction filings from 2016 to 2018 were all **majority Black tracts**. Six of these tracts had poverty rates above 10 percent.

The most commonly-evicted tenants are **Black, female heads of household with children**.

Eviction Patterns in Cleveland

October 2019. The Cleveland Eviction Study: Downstream Paths of Evictions into Homelessness and Loss of Human Capital. October 2019.

The Cleveland Eviction Study: Observations in Eviction Court and the Stories of People Facing Eviction stability, saving a community many times the cost of counsel and rent assistance in related spending on homelessness, education, and the juvenile justice system. As Council President Kevin Kelley reflected following the visit, "it's a numbers issue."

This visit also reinforced the committee's understanding that a program would be most effective with housing attorneys, versus volunteers and/or law students trained to provide support.

Designing and Aligning

After establishing buy-in on the overall design of the program, the advisory committee worked with John Pollock, of the National Coalition for a Civil Right to Counsel, to forecast what the program would costs. Given the costs of counsel, the committee recognized that the statutory right to counsel (i.e., granted by local ordinance) may not be able to cover every tenant facing eviction.

Based on estimates of demand, the committee tested the costs at different eligibility thresholds (e.g., 200 of the federal poverty level, 100 percent of the federal poverty level, and other limits) to determine what resources would be needed for implementation. These models included the full cost of the program—staff, rental assistance, staff benefits, and education about the program—as well as representation in both the possession and damages portions of an eviction case.
This understanding of the program's cost also highlighted the need for philanthropic support to launch the effort.

Program structure and operation

In September of 2019, the City Council unanimously passed the ordinance (Ord. No. 1001-2019) establishing a right to counsel for families with children (i.e., at least one minor) that have incomes at or below the federal poverty level. The City partnered with the United Way of Greater Cleveland and other philanthropic entities to provide the needed funding for the program, and designated the Legal Aid Society of Greater Cleveland as the lead partner organization.

Legal Aid is responsible for the program's intake, legal advice and representation, training of staff lawyers/contract attorneys/volunteers, community legal education, on-going collaboration with Cleveland Municipal Housing Court and community partners. It also helps lead, with United Way, the fundraising, outreach, and evaluation components of right to counsel. To implement the program, Legal Aid added eight staff attorneys to its housing team (now 24 people in total). Twelve staff—including two paralegals and ten attorneys—are dedicated full time to the right to counsel program. Legal Aid estimates that each attorney will handle a case load of approximately 100 cases per year.

United Way provides administrative support, coordinates funding and resources, designs marketing and community outreach components, and contracts with Stout—an advisory firm specializing in impact analyses and quantitative evaluation methods—to evaluate right to counsel over a three-year period.

Key Players & Roles

City of Cleveland

Passed ordinance; provided some funding for program; provided political leadership

United Way of Greater Cleveland and other philanthropic partners

Provided majority of funding for the program, including for counsel, education, and evaluation

Legal Aid Society of Cleveland

Offered subject matter expertise in program design and implementation; provided leadership in catalyzing the effort; served as host organization for housing attorneys; led outreach through partner organizations

Sisters of Charity Foundation of Greater Cleveland

Funded a fellow to drive design of the program and coordinate education, advisory committee

Stout Risius Ross, LLC

Partners on evaluation and impact reporting

The right to counsel operating structure is grounded in an Advisory Committee and four working groups. The Program Working Group meets twice each month and oversees implementation and process improvement of the right to counsel program. The Fundraising Working Group meets twice each month to develop and advance a fundraising strategy to bolster needed resources for successful implementation. The Evaluation Working Group evaluates program outcomes and the return on investment (i.e., downstream savings in other social services and city programs). The Communications and Outreach Working Group meets weekly to coordinate on key education and information efforts, including a website, radio and social media campaigns, and outreach to partner organizations.

The 2021 budget for right to counsel projects $2.68 million in expenses, including $1.8 million toward staffing costs (e.g., attorneys, legal support, administration, benefits, etc.), and $0.9 million towards direct costs, (e.g., outreach and engagement, information technology, evaluation, etc.). Revenues for the program include contributions from the Legal Aid Society of Cleveland, United Way, the City of Cleveland (including $300,000 right to counsel investment, $50,000 in standard CDBG funding, and $500,000 in CARES CDBG funding), the Cleveland Foundation, the George Gund Foundation, the Ohio State Bar Foundation, and other groups.

Early experience with implementation

In the context of COVID-19, the implementation of right to counsel in Cleveland was more critical than ever, but also more complicated. The pandemic increased the prevalence of housing instability while also further elevating the importance of safe, stable, and healthy housing. The COVID-19 crisis has also involved various federal and local eviction moratoria, the temporary closure of courts, and the subsequent reopening of courts in an online format. These circumstances increased the importance of outreach and education about the right to counsel, while also requiring attorneys and partners to adapt to new ways of reaching households facing an eviction (e.g., by attending housing court proceedings via zoom to represent households, as well as to inform households of their right to counsel).

Implementation involved extensive outreach to tenants through a vast network of community partners, coordination with the courts to ensure that defendants are made aware of their rights and responsibilities. A broad network of partner organizations (such as libraries, community development organizations, schools, hospitals, churches, council members, and food banks) and methods (such as United Way's 211 line, bus wraps, phone banks, billboards, and a dedicated website) helped spread the word. The court also participated in informing defendants of their rights by including information about right to counsel in court documents.

Despite the complexities of implementing right to counsel during COVID-19, the program is on track to achieve the program's goals. In the first six months of right to counsel:

- 93 percent of households (63 cases) who received representation and were seeking to avoid an eviction or involuntary move avoided displacement.
- 83 percent of households (33 cases) secured additional time to move as requested, allowing them needed time to connect to other support services and find safe and stable housing.

- 89 percent of households (16 cases) who sought mitigated damages achieved this goal.

The first six months of cases also underscore how eviction has a disparate impact on communities of color. Of the initial right to counsel cases 71 percent of tenants were Black.

Insights and Lessons Learned

Cleveland's experience with right to counsel sheds light on several key insights that can guide the Omaha and Council Bluffs area's effort to implement right to counsel.

Process that engages experts and builds buy-in

The cross-sector advisory committee was a critical component of getting the idea off the ground. The efforts of local and national experts (e.g., the Bar Association, Case Western Reserve University researchers, John Pollock and others) combined with the political leadership of Council President Kevin Kelley were all fundamental to creating the conditions for implementation.

Dedicated capacity is needed early on

Remesch's fellowship with Legal Aid offered the community the capacity needed to drive the idea. Her passion, expertise, and energies in coordinating the needed partnerships and conversations were critical in giving the idea legs.

Public-private partnership presents both opportunities and challenges

While the support of United Way and the philanthropic community were critical to jumpstarting the program, a dedicated public source of funding would help to fully institutionalize and stabilize the right.

A shift in the attorney's role

Successfully avoiding involuntary displacement and evictions often involves an active role in helping tenants connect to and navigate available supports. This is a role not traditionally served by attorneys, but is a critical function for the program's early success and impacts.

Questions to Guide Implementation in the Omaha and Council Bluffs Area

There are a number of questions that can guide ongoing conversation about a similar effort in Omaha and Council Bluffs:

- What is the scale of the need?
- What partners are best positioned to provide effective legal assistance, and what additional capacity do they need to take on the expected caseload?
- How can the region expand the needed capacity for legal assistance?
- Considering the balance between cost, need, impact, and possible savings, what is the best eligibility threshold for tenant right to counsel in the region? Eligibility characteristics could include both income (e.g., 200 percent of poverty) or familial status (e.g., households with children).
- What are the other needed supports and resources that should be incorporated in planning (e.g., translation, education and outreach, an average amount of rent assistance per case)?
- How will the public sector and private sector partner to implement a right to counsel (e.g., funding, operations, evaluation, etc.)?
- What education, outreach, and partnerships are needed to make community members aware of available support?
- What policy and/or legislative changes are needed to support this work?

Case Study

Housing for the Future Fund & Preservation Partnership

The Detroit Housing for the Future Fund is a $50 million public-private fund created to support preservation of affordable housing in the City of Detroit—a critical pillar of the city's equitable development framework. Together with broader efforts as part of Detroit's Preservation Partnership, the effort offers a promising precedent for public-private collaboration around preservation.

Over the past several years, partners at the City of Detroit, the Michigan State Housing Development Authority (MSHDA), HUD, and in the local community development ecosystem increasingly recognized the need for preservation action. And the community has taken action: aligning partnerships to support preservation; dedicating significant financial resources to assist with capital needs assessment, renovation, and other key aspects of preservation; and building a data infrastructure to track and target units at risk of losing their affordability. Detroit's work demonstrates what could be possible in the Omaha and Council Bluffs area; it also illustrates how multifaceted affordable housing preservation work can be.

Catalyzing the idea

In 2018, the City of Detroit published its Preservation Action Plan—an effort to take a holistic look at the need to preserve the quality and affordability of the city's existing multifamily housing properties. This plan was built by the Detroit Preservation Task Force, a group of over 40 individuals convened in 2017 by the City's Housing and Revitalization Department. The Task Force included representatives from government agencies, developers, financial institutions, community-based organizations, housing advocates, legal experts, philanthropic organizations, academic research groups, and property managers.

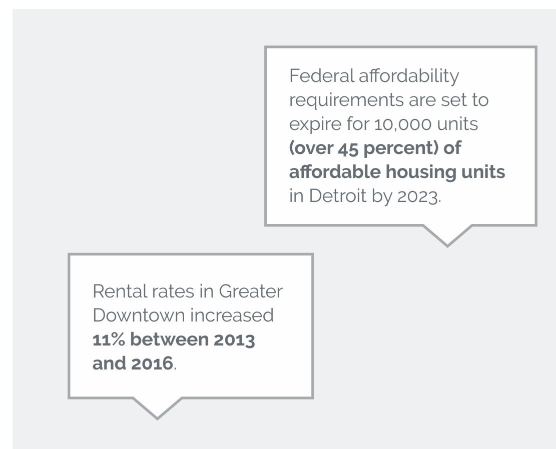
The Task Force identified that federal affordability requirements were set to expire for about 10,000 units (over 45 percent) of affordable housing units in Detroit by 2023. While many of these were expected to continue to exist as affordable, about 2,500 of these needed more active intervention to preserve affordability. For example, expiring properties in areas with rising market values were at risk of conversion to market rate. Many properties approaching the end of their affordability restrictions had significant financial needs for repair, renovation, and refinancing; without support to address these needs, properties could fall into severe neglect or even functional obsolescence.

The Task Force was built around four working groups, each oriented to address one of the categories of at-risk housing:

- Sustainable regulated affordable housing stock
- Unsustainable/troubled regulated affordable housing
- Scattered-site low-income housing tax credit (LIHTC) housing developments
- Naturally occurring affordable housing (NOAH)

The Plan set a clear overall goal to preserve 10,000 units of affordable multifamily housing by 2023, supported by four over-arching strategies:

- Create and maintain a Preservation Database and prioritized list of specific properties for immediate intervention.
- Collaborate with key stakeholders to coordination preservation of prioritized multifamily properties.
- Transition Scattered-Site LIHTC properties to financial sustainability.
- Improve coordination and collaboration among stakeholders.



Preservation Needs in Detroit

2018. Detroit Preservation Action Plan.

The plan also identified urgent needs for financial and staff resources to support this work—identifying the need for both the Detroit Housing for the Future Fund and the Detroit Preservation Initiative.

Designing and aligning

Following adoption of the City's Preservation Action Plan and Multifamily Affordable Housing Strategy, the City issued Requests for Proposals to identify entities to help plan and structure a preservation fund, and to coordinate other preservation work. The Local Initiatives Support Corporation (LISC)—a national community development intermediary and Community Development Financial Institution (CDFI) with an established presence in Detroit—was selected to lead the fund effort, and a multi-organization team lead by Enterprise Community Partners was selected to develop and implement a comprehensive affordable housing preservation initiative.

To design and build the Detroit Housing for the Future (DHFF) fund, LISC worked closely with partners at the City and MSHDA. The intent of the new fund was for it to leverage existing preservation resources—HOME and CDBG—to help spread them further and support a larger volume of projects each year. Designing new programs to effectively leverage existing resources involved careful understanding of existing capital gaps in preservation projects, and of project timeframes and other funding cycles. Structuring the fund also involved detailed modeling to understand operational sustainability (i.e., equity/loans/grants paid out, and loan and equity payments back in) as well as extended conversation regarding partner roles and expectations related to reporting, data sharing, project review, and legal structure of the fund.

The Mayor's leadership played a critical role in getting private investors on board, helping to convene funders early on and open doors for conversation about possible partnerships.

Enterprise Community Partners—the lead organization on the Preservation Partnership—brought together a team with the diverse range of expertise to advance the multi-faceted work of preservation in Detroit. The Partnership's six partners include:

- Enterprise Community Partners, leading the team and working directly with property owners on preservation action plans for their properties.
- United Community Housing Coalition, a Detroit-based nonprofit that engages residents and provide guidance on tenant-retention strategies (i.e., on renovation projects with a temporary tenant relocation need).
- A collaboration between Cinnaire and CHN Housing Partners, which are developing a lease-purchase program and working with property owners of scattered-site LIHTC projects on preservation action plans.

Key Players & Roles

Local Initiatives Support Corporation Detroit Office: Led design of DHFF; manages applications, undewriting, closing, and asset management

City of Detroit: Provided leadership and coordination; leverages HOME and CDBG funds in Affordable Housing Leverage Fund

Michigan State Housing Development Agency and HUD: Coordinate with partners on data sharing, participation, and leverage of state funds

Philanthropic and corporate partners: Contribute funding to DHFF

Enterprise Community Partners: Leads Preservation Partnership, multifamily property owner engagement

United Community Housing Coalition: Leads tenant engagement, communication, temporary tenant relocation assistance

Cinnaire and CHN Housing Partners: Leads design of lease-purchase program, scattered-site property owner engagement

Data Driven Detroit: Leads creation of centralize preservation database

Elevate Energy: Performs energy and water assessments

Community Investment Corp (Chicago): Advises on NOAH property owner engagement, policy

- Data Driven Detroit which is building a central database of affordable housing properties to track expiring restrictions and other risk factors.
- Elevate Energy which is performing energy and water assessments to identify improvements that will support tenant comfort and a properties' financial sustainability.
- Community Investment Corp, to advice on preservation strategies for NOAH properties.

DHFF structure and operation

The $50 million DHFF was created in partnership with the City of Detroit as part of the Affordable Housing Leverage Fund to direct private contributions (including from corporate partners, lending institutions, and philanthropy) to the preservation of dedicated and naturally-occurring affordable housing properties. The Fund is designed to deploy private grant and low interest loan capital to compliment and leverage public investment through the City of Detroit and MSHDA as well as tax credits and other existing affordable housing finance tools. The first announcement of funding was made September 29, 2020, after which DHFF held several recorded informational sessions.

The fund offers five products designed to preserve 10,000 existing affordable units and support the development of 2,000 new units. These products include: a capital needs assessment recoverable grant program; a grant award to match predevelopment expenses and soft costs for developers of color; a low-interest subordinate mini-permanent loan; a low-interest preservation acquisition mini-perm loan (senior); and a preferred equity product. Most products target multifamily buildings with 75 units or fewer, but can support larger projects. DHFF funded projects are expected to maintain affordability for the length of the investment: 15 years for debt products and 25 years for Preferred Equity products. There is an overall $5 million maximum award per project per round, and a $10 million maximum award per developer per round. More detail about each fund project is shown to the right.

These products were conceptualized through extensive conversation and planning, and are structured to meet the diverse array of preservation needs in Detroit. Contributions into the fund include both grants and program-related investments (PRI) which receive a return from the fund. Grant contributions have been key in allowing the funds' products to take on more risk—preferred equity, low-interest, longer-terms, higher loan-to-value ratios, and lower debt service coverage ratios—needed to make the fund attractive to developers who are also agreeing to significant affordability periods and modest

Overview of Fund Products

Capital Needs Assessment & Green Capital Needs Assessment Recoverable Grant Program

- Description: covers costs of a 3rd party Capital Needs Assessment.
- Eligibility: owners of dedicated affordable housing (100% affordable) or Naturally Occurring Affordable Housing (NOAH) projects that need to understand the capital needs of their projects and are willing to preserve unit affordability
- Overview of terms: Up to $25,000; repayable at construction financing closing, or forgivable if project does not move forward to financing closing

Developers of Color (DOC) Matching Grant Award

- Description: Covers a portion of a project's predevelopment expenses and soft costs for developers of color.
- Eligibility: non-profit (organization lead is of color, majority of board is of color); for-profit developers of color; less experienced developers of color working with an experienced consultant
- Overview of Terms: Up to $100,000 over 2 years; minimum 5% developer equity.
- Affordability requirements: 15% of units restricted to 60% AMI or below, and an additional 5% at 50% or below. Deeper income targeting encouraged.

Low Interest Subordinate Mini-Perm Loan

- Description: Allows for refinancing of existing debt; intended for multifamily buildings of 75 units or less, but not exclusively; covers renovation costs projected at moderate level per unit.
- Eligibility: Owners or purchasers of existing regulated projects willing to preserve unit affordability as set through loan covenants; owners or purchasers of NOAH buildings willing to meet affordability requirement.
- Overview of Terms: Up to $2 million; 15-year term; amortization up to 30 years; up to 95% LTV; 1.05 DSCR; minimum 5% developer equity for nonprofit, 5-10% for for-profit; subordinate lien
- Affordability requirements: At least 50% of units must be at 80% AMI or below; remaining 50% of units at 120% AMI or below

Low Interest Preservation Acquisition Mini-Perm Loan

- Description: Allows for refinancing of existing debt; intended for multifamily buildings of 75 units or less, but not exclusively; covers renovation costs projected at moderate level per unit.
- Eligibility: Owners or purchasers of existing regulated projects willing to preserve unit affordability as set through loan covenants; owners or purchasers of NOAH buildings willing to meet affordability requirement.
- Overview of Terms: Up to $5 million; 15-year term; amortization up to 30 years; up to 85% LTV; 1.10 DSCR; minimum 5% developer equity for nonprofit, 5-10% for for-profit; senior lien
- Affordability requirements: At least 50% of units must be at 80% AMI or below; remaining 50% of units at 120% AMI or below

Preferred Equity Product

- Description: Provides equity investment into a project ownership entity, is intended for multifamily buildings of 75 units or less, but not exclusively. Can be used for new construction or renovation/acquisition of existing properties.
- Eligibility: Owners or purchasers of existing regulated projects willing to preserve unit affordability as set through loan covenants; owners or purchasers of NOAH buildings willing to meet affordability requirement.
- Overview of Terms: Up to $2 million; up to 25-year term; up to 120% LTV; maximum 1.05 DSCR; minimum 5% developer equity for nonprofit, 5-10% for for-profit; preferred equity is senior on the refinance before developer cash-flow
- Affordability requirements: 5% of units at 50% AMI or below; 15% of units at 60% AMI or below. Overall, at least 50% of units must be at 80% AMI or below.

reporting requirements.

Project applications are accepted on a rolling basis. The application process has six stages, which occur over four to seven months:

- Pre-application: Developers submit short applications on an online portal and DHFF (LISC staff) meet with applicants to discuss their projects. (2 weeks)
- Application: Developers are granted access after their pre-application meeting, and submit their full application and required documentation. (2 weeks)
- Threshold Review & Scoring: DHFF reviews and scores applications, notifies applicants of satisfactory completion. (3-6 weeks)
- Intake & Project Review: Project Review Committee (including DHFF, the City, and MSHDA) reviews project packets and send Letters of Interest (LOI) to applicants after initial project approval. (3-6 weeks)
- Underwriting & Approval: DHFF works with applicants to assembled documentation needed for closing; commitment letter is sent after final approval. (3-6 weeks)
- Closing & Monitoring: DHFF schedules closing; after closing, DHFF Asset Manager monitors loan/project performance and tracks payments. (3-6 weeks)

Early experience, insights, and lessons learned

The Preservation Partnership initiated its work in March of 2020, and DHFF began accepting the first round of applications in late 2020 and is expected to close on its first deals in early 2021. While this program is still new, there are still valuable insights for leaders in the Omaha and Council Bluffs area.

Tradeoff between long-term affordability and fund repayment

When designing any mission-oriented fund, there is a tradeoff between the depth of the assistance (i.e., the risk a fund product takes on) and what can be required of participants. That is, more "generous" fund products can generally ask more of borrowers or developers (e.g., the length of affordability) than less "generous" products. Funds that offer more "patient" capital, for example, are especially useful to affordable housing preservation developers. However, these products will not result in as rapid a repayment cycle, meaning the fund will not be replenished as quickly. The right balance within these tradeoffs will be unique to every context.

Investment of time in establishing agreements between partners

Alongside the financial and programmatic structure/design of a fund, partners must establish the legal structure parameters of the fund: who actually owns it, whether it is its own legal entity, on which organization's balance sheet it will appear, who will report its progress, etc. These conversations can involve a great deal of coordination, and must be given ample time to work through.

Balancing prioritization and participation

The Preservation Partnership is working to orient their efforts towards priority properties—those at the highest-risk of conversion to market rate or falling into functional obsolescence. However, it can be onerous and unfruitful to try to engage property owners who simply do not have an interest in collaboration. Early efforts of the Partnership raise the challenge that some of the highest-risk properties (those in the hottest markets) may not be the ones most likely to move forward. However, the Partnership is working hard to collaborate with willing and mission-aligned property owners while also improving leverage for high-risk property owners.

The importance of leverage and clear financial incentives

While there has been general interest in participation/collaboration with the Preservation Partnership from non-profit property owners, it is more challenging to engage for-profit owners, including owners of NOAH properties. For these groups, it is critical to demonstrate the financial benefit of available assistance. A carrot with monetary value is key, especially for some types of property owners (such as "mom and pop" NOAH owners) who may have an aversion to government oversight. The Partnership has found some success in identifying other forms of "leverage"—such as identifying which properties are using City and State financing—to help spur interest. Access to tax abatement through preservation collaboration has been a particularly useful tool, especially for properties that might need significant improvements in strong-market areas.

Value of broad engagement and collaboration

Detroit's approach of engaging a broad multi-stakeholder partnership in preservation work has had many benefits in tackling the multi-faceted needs of preservation. For example, the Partnership's intergovernmental working group (of the City, HUD, and MSHDA) helped build the central database, and serves as a forum for talking about specific projects and challenges. And the United Community Housing Coalition has played an invaluable role as a trusted voice with residents, helping to share information with them and facilitate communication. And partners with specific knowledge of scattered-site lease purchase projects and NOAH properties bring other needed expertise to the table.

Considerations for Omaha and Council Bluffs

Successfully creating and operating a preservation fund and preservation initiative will require careful planning and detailed conversation among partners. Several key questions that should be considered are outlined below:

- What specific types of preservation projects will the fund target (i.e., size, location, affordability mix), and what financing products are best suited to meet those projects' needs?
- What is the fund's unit number target for impact? How will leaders in the community assemble the needed commitments from contributors?
- What are the operational and administrative requirements of successfully implementing this type of fund? What entity has the needed capacity and expertise?
- What reporting will be required of borrowers/fund participants? How do these requirements align with those of other subsidies and incentives that are likely to be in the capital stack for the target projects (e.g., 4 percent LIHTCs, Historic Tax Credits, HOME funds, etc.)?
- How will partners generate interest in participation?
- How should partnerships between the administrator of the fund and contributors be structured? Who will be engaged in oversight, in loan review, in data sharing and reporting, etc.?
- How will partners identify and track preservation needs?
- What government and non-government partners are needed for successful implementation of the fund and other supports?

Case Study

Detroit Home Mortgage Program

The Detroit Home Mortgage Program is an innovative model designed to stabilize the city's housing market and support homeownership by addressing the appraisal gap in Detroit's neighborhoods. The program had more rapid results than many expected, restoring conventional lending across much of the city.

Many legacy cities in the Midwest and Northeast have neighborhoods that face an "appraisal gap," where values are too low for borrowers to get sufficient financing for purchase, purchase and renovation, or for a home equity loan for renovation. This means that when interested buyers make an offer to purchase a home, appraisers cannot find comparable sales in the neighborhood, and that conventional lenders are unable to underwrite the mortgage. This challenge is in many ways a result of historical practices and actions that diverted investment away from communities of color—redlining, blockbusting, and other discriminatory practices. (For this reason, loan programs to support equitable reinvestment in these neighborhoods are sometimes referred to as "greenlining" funds.)

But in Detroit, after the foreclosure crisis of the late 2000s, nearly all neighborhoods in the city faced this appraisal gap issue. To rehabilitate the regular function of the housing market, the City and its partners created an innovative appraisal gap mortgage program—the Detroit Home Mortgage Program—that helped to restore conventional mortgage lending activity in neighborhoods with pent-up demand.

The Detroit Home Mortgage Program offers a model for what could be possible in the neighborhoods in Omaha and Council Bluffs area that have an appraisal gap issue. A successful program could expand access to homeownership in communities of color, promote renovation and repair of the homes in these communities, and create wealth-building opportunities for families who have historically been denied access to homeownership.

Catalyzing the idea

In the aftermath of the foreclosure crisis, Detroit's housing market almost entirely stalled. In this severely distressed market context, appraised home values fell far below what was needed to underwrite home loans. Prospective homebuyers, and homeowners looking to renovate, could not get the financing required to make investments in their homes.

In 2014, for example, 80 percent of home improvement loans were denied, and across all mortgage lending, the most commonly-cited reason for denial (approximately 40 percent of denials) was insufficient collateral: that is that the home's value as determined by an appraisal fell below a level needed to provide collateral on the mortgage loan. This created a situation where fully 88 percent of all home purchases were cash purchases—typically made by institutional investors looking to flip and/or rent homes—and where mortgage activity only occurred in a handful of Detroit's neighborhoods. In 2014, only 450 mortgages were issued in all of Detroit.

All of this was occurring in the context of the City's 2013 bankruptcy, highlighting the potential for a further downward spiral of outmigration, declining property values, and shrinking tax revenue. Mayor Mike Duggan identified the lack of mortgage lending as the largest problem facing the city.

In 2016, the Kresge Foundation—a long-time partner of the City on community development issues in Detroit—worked with several other partners to create the Detroit Home Mortgage Program (DHMP).

Insufficient collateral was the most commonly-cited reason for mortgage loan denial by lenders.

80% of all **home improvement loans** were denied in 2014.

In 2014, **only 450 mortgages** were issued in all of Detroit.

The Impact of Detroit's Appraisal Gap

Community Reinvestment Fund Analysis of Sales and Mortgage Data.

Designing and aligning

To restore healthy function in the housing market, local leaders created an appraisal gap loan program that offered second mortgages to fill the "appraisal gap" between appraised values and negotiated sales prices. The loan pool out of which second mortgages are issued is backed with loan loss reserves that help guarantee the potential losses of these non-collateralized loans. The Kresge Foundation, the Ford Foundation, and the MSHDA all contributed capital to guarantee the loan pool. MSHDA also provided funding to reduce interest rates for low- and moderate-income participants in the program.

Leaders in Detroit partnered with the Community Reinvestment Fund (CRF) to administer DHMP. CRF is nonprofit community development financial institution based in Minneapolis. As a CDFI, CRF is focused primarily on small business lending, but the organization hired Krysta Pate—a community development expert with many years of experience working on housing issues in Detroit—to lead DHMP. CRF assisted with design of the program, led outreach and education for the program, and underwrites the second mortgage loans.

Because of the duration of disinvestment and deferred maintenance in much of the city's housing stock, most purchases made through DHMP were expected to involve some level of renovation or significant repair. The goal of DHMP was not only to assist with restoring mortgage originations and home sales, but to stabilize the housing market in durable way: so property condition and maintenance really matters, and needed to be taken into account when designing the program. DHMP partnered with the Detroit Land Bank to understand likely renovation needs. The Land Bank had previously studied about 200 homes in their portfolio in partnership with Home Depot to scope the average repair amount, estimated at $75,000. This amount became the ceiling for second mortgages made by DHMP.

It was also critical for participants in DHMP to be fully prepared to become homeowners, and fully aware of the mortgage products they were using. This was especially critical in the context of Detroit, where recent histories of predatory lending and the emergence of land contracts had done a great deal of harm and sewed mistrust. DHMP participants are required to complete two courses: a HUD-approved homebuyer education course, and a class on the risks and benefits of high loan-to-value loans (which DHMP essential is). DHMP borrowers who plan to renovate their homes must also take a brief renovation training class, and are connected with a DHMP construction program manager which helps evaluate the feasibility of the renovation, and provides guidance to the borrower. There are no income limitations for participants in the program; they must only be in good financial standing (with a FICO credit score of 600 or above) and able to make the downpayment (although downpayment assistance programs can also be used).

Key Players & Roles

City of Detroit

Leadership on the issue

The Community Reinvestment Fund

Administers the program, including education and outreach, partnership coordination, second mortgage underwriting and closing, and renovation technical assistance to borrowers

Kresge Foundation

Made a major investment in loan guarantee for the second mortgage pool, and provided grant funding for operating support to launch program

Homeownership education groups

Provide HUD-certified homebuyer education to participating borrowers

Michigan State Housing Development Authority

Contributed guarantee to second mortgage pool, funding to reduce interest rates for low- and moderate-income participants

Detroit Land Bank

Helped estimate likely renovation costs

Local Banks

Provide first mortgages at affordable terms to DHMP participants

Program structure and operation

DHMP works by providing borrowers two loans: a first mortgage based on the appraised value of the home, and a second mortgage to cover the difference between the appraised value and the purchase price (including renovation). DHMP borrowers apply for the first mortgage with one of the participating banks just like they would for any other real estate transaction. Once the appraisal is determined, the bank will split the loan into two mortgages with low, fixed rates. The first mortgage is for 96.5 percent of the appraised value. The second mortgage will be for the amount above the appraised value up to $75,000.

The second mortgages are made out of a $40 million loan pool that blends contributions from banks, MSHDA, and Kresge and Ford Foundations. The loan guarantees from the philanthropic participants and state housing agency make it possible to offer affordable terms on what is conventionally seen to be a higher-risk investment. (To date, however, there has not been one borrower default.) Kresge also provided $1 million in grant support for administrative and operational work when the program launched.

DHMP partners with four banks to make the primary (first) mortgage loans in the program: Huntington, TCF, Flagstar, and Independent. Second mortgages are underwritten and closed by CRF; DHMP loans are not sold until the purchase and renovation are complete.

Implementation, Insights, and Lessons Learned

After about five years of implementation, DHMP has several observations on the unique challenges and strengths of a program like this that can help inform program design in other communities.

Just a few mortgages can impact a neighborhood's housing market

DHMP had a more rapid impact on neighborhood housing markets than many expected; CRF and the City found that just a handful of successful purchases in part of a neighborhood create the comparable sales needed to support traditional lending. This suggests that in other communities it is possible for a greenlining fund to make a positive impact with a fairly "light touch" in terms of the amount of investment in each neighborhood.

Flexibility in a program's operational structure is key

Because of the faster-than-expected impact of DHMP, and because DHMP second mortgages are available only when needed (i.e., when the first appraisal fails), the program did not achieve its origination target. That is, DHMP fell short of its origination target because of its success. But because origination fees were part of the program's operational structure, the program has had to adjust. Flexibility from philanthropic partners was essential, and allowed some of the loan guarantee capital to support operational expenses not covered by origination fees.

Not all neighborhoods are equally well-suited to appraisal gap mortgage programs

DHMP was well-suited to neighborhoods in Detroit where there was pent-up demand for homeownership. In these neighborhoods, there were interested buyers, and a more reliable likelihood that a rising tide of property values would not put DHMP borrowers (with very high LTV mortgages) underwater.

But in Detroit's more distressed neighborhoods with weaker for-sale and renovation demand, DHMP has not gotten as much traction. Without a holistic strategy for neighborhood improvement that would help property values recover to a sustainable level, it also would not have been advisable to encourage households to take on high LTV mortgages. This challenge highlights the importance of a more robust community development ecosystem able to make sustained, holistic investments in neighborhoods and residents.

Proactive strategies are needed to reach beyond "early adopters"

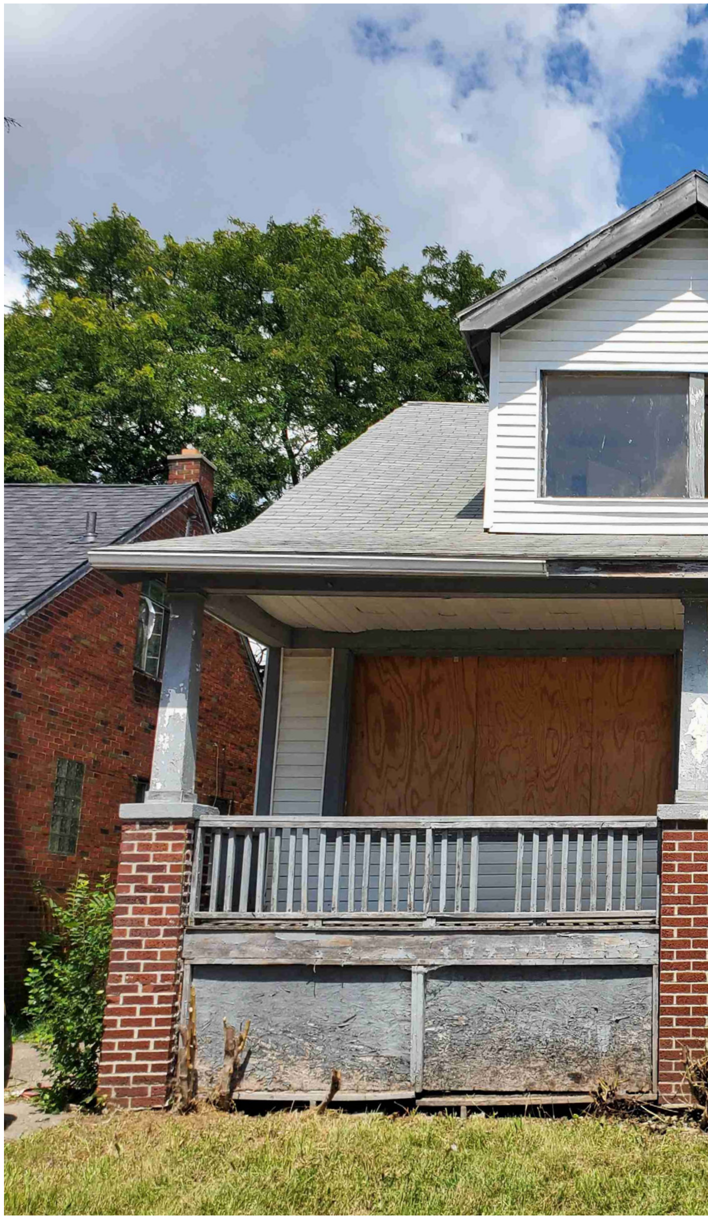
When DHMP launched, it was a new, untested mortgage product in a very uncertain housing market. Despite broad community outreach about the program, CRF and its partners found that early adopters did not match the profile of the "average Detroiter:" they were instead young, white, millennial couples excited to buy a home in the city. But as the program built its track record, brand, and trust in the community, it began to attract a more diverse pool of borrowers: older homeowners looking to move or reinvest in their homes, and single parents buying their first homes.

While stabilized home values in Detroit's neighborhoods were a benefit to a broader set of Detroiters than just DHMP participants, this experience still demonstrates the importance of a proactive set of partnerships and supports to reach target participants.

Considerations for Omaha and Council Bluffs

A program like DHMP requires careful planning, cross-sector partnership, and flexibility to foster the desired outcomes. Key questions to guide this planning are outlined below:

- Where should this fund be made available? Should it be targeted to particular geographies, and/or piloted in neighborhoods where other focused and intentional reinvestment is underway?
- What are the operating requirements of the program? Will operations be funded through underwriting fees, or supported by grant contributions?
- How many second mortgages will the fund make, and how much risk is the fund carrying? How much of a loan loss reserve is needed to guarantee investor expectations can be met?
- How will the program be marketed? How will partners build trust around this new program, and what other supports and partnerships are needed to ensure that people of color are able to fully participate?
- What partners are needed for successful implementation? Who will administer the fund, provide first mortgages, offer homebuyer education, conduct outreach, and lead other key program components?
- Who will be eligible for the program?



Case Study

Charlotte Housing Opportunity Investment Fund

The Charlotte Housing Opportunity Investment Fund represents a major civic investment in mixed-income housing as a pillar of economic mobility and opportunity in the community. The fund works with Charlotte's Housing Trust Fund to leverage resources for greater impact.

Over the past several years, a broad range of government, private, and philanthropic partners in Charlotte aligned their resources and energy around mixed-income and affordable housing as a key component of a more equitable economy. The $53 million Charlotte Housing Opportunity Investment Fund (CHOIF) is designed to work with other resources to improve economic mobility in the community by improving affordable housing locations, increasing the volume of affordable housing production, further levering the City's Housing Trust Fund dollars, and increasing the supply of very low-income units. The fund offers a model for what could be possible in a community like Omaha and Council Bluffs, particularly in promoting mixed-income development in high-growth and service-rich parts of the region.

Catalyzing the idea

In 2014, renowned economist Raj Chetty published a report on economic mobility that ranked Charlotte very last for economic mobility among the nation's 50 largest metros. Among other factors, Chetty identified the damaging impacts of racial segregation and income inequality on economic mobility. This study served as a real wake-up call for the Charlotte community, and it spurred an introspective civic conversation about barriers to economic mobility in the region and what could be done to address them.

To advance the local conversation about economic mobility, the Foundation for the Carolinas led an effort to identify and unpack the factors contributing to Charlotte's poor economic mobility: the Charlotte-Mecklenburg Opportunity Task Force, composed of leaders from the region's governments, philanthropic, social service, education, faith, and corporate communities.

The Task Force published a report in 2017 to summarize the findings and recommendations from its work. Among the key findings were that racial and economic segregation, and the lack of affordable housing in areas of opportunity, were key barriers to economic mobility in the region. The report outlined several recommendations aimed at these issues, including expanding the availability of affordable housing, particularly by addressing the locational barriers to affordable housing development and by supporting mixed-income housing development. The Charlotte Housing Opportunity Investment Fund (CHOIF) was an outgrowth of this recommendation, and key community initiative to move the needle on economic mobility in Charlotte.

Designing and aligning

In the years following publication of the Opportunity Task Force Report, community leaders proceeded with creation of the Charlotte Housing Opportunity Investment Fund to leverage public funds in support of mixed-income housing development in areas of opportunity.

Alongside a public campaign to pass a $50 million bond for the City's Affordable Housing Trust Fund, private and philanthropic donors worked together to raise funds for the complementary CHOIF. The Foundation for the Carolinas seeded the fund with a $10 million contribution. Other major contributors include Bank of America, Wells Fargo,

"In the last two years, our community has learned–and relearned–**a hard truth** that has been difficult for some to accept: access to economic opportunity in Charlotte-Mecklenburg is far too often aligned with the zip code where one lives. **For every young person with a bright spark of hope and a pathway for his or her future, there is another, not so far away, living day to day without the necessities to light his or her own path.**"

Charlotte-Mecklenburg Opportunity Task Force

2017. "Leading on Opportunity." Charlotte-Mecklenburg Opportunity Task Force Report

Truist, U.S. Bank, Fifth Third Bank, Atrium Health, BB&T, SunTrust, and SunTrust Foundation, David and Scott Brooks, Crescent Communities, Duke Energy, the Howard R. Levine Foundation, and Novant Health.

Initial contributions totaled over $50 million, but as of September 2020, private contributions total more than $75 million. Contributions from private partners include both grants and program-related investment (PRI):

- Grants, designed to revolve back into the fund over the life of the initiative.
- Equity, with a 20-year term and a return of between 0% and 2% (with a target to return 100% of all capital). Minimum $500,000 investment.
- Debt, with a 20-year term and a return of between 0% and 1% (with a target to return 100% of all capital). Minimum $2 million investment.

The Local Initiatives Support Corporation (LISC) Charlotte office was selected to administer CHOIF, including leading the application process, coordinating application review, underwriting projects, and performing asset management. At the time of the fund's creation and development, LISC was establishing an office in Charlotte and had pledged to invest an additional $25 million in local comprehensive community development initiatives including economic and workforce development, nonprofit capacity building, community and safety, and sports and recreation.

CHOIF's application process aligns closely with the City's Housing Trust Fund (HTF) application process so that CHOIF funds can help leverage public contributions in the form of both HTF dollars and public land. (NOAH project applications, however, are accepted on a rolling basis to align with the sometimes rapid and unpredictable acquisition timeline associated with these projects.) CHOIF also has an agreement with the Charlotte Housing Authority to make available Project-Based Vouchers (PBV) as part of the application process for development assistance.

Fund structure and operation

CHOIF has a target to finance 1,500 units of mixed-income housing by offering soft gap financing to projects in designated Opportunity Areas, including both mixed-income multifamily development and the preservation of naturally-occurring affordable housing (NOAH). Developments must serve households earning between 30 percent and 120 percent of area median income (AMI).

CHOIF offers two products to eligible applicants: preferred or common equity (for non-LIHTC projects), and subordinate debt. Both types of assistance are capped at $3 million per project, with additional funding possibly available at the discretion of CHOIF). All CHOIF-financed projects

Key Players & Roles

Local Initiatives Support Corporation Charlotte Office

Led fund design

Oversees application process in coordination with the City

Presents applications for Council review

Underwrites and closes projects

Performs asset management

City of Charlotte

Coordinated with LISC on alignment with the Housing Trust Fund

City Council reviews and approves CHOIF investments

Foundation for the Carolinas

Provided leadership on the issue of economic mobility

Set stage for civic investment in affordable and mixed-income housing; seeded CHOIF

Banks, Philanthropic Partners, Corporate Partners

Provided funding for CHOIF, as well as some donations of land

Fund Products Overview

Preferred or Common Equity

Description: Available for acquisition or construction for non-LIHTC mixed-income development in areas of high opportunity

Overview of terms: Up to $3 million per project; 5% equity required from developer for preferred equity, 10% for common equity; 70% LTV reversion valuation, 6% cap rate on forward NOI; maximum of 5% IRR; maximum developer fee of 7% of TDC

Affordability requirements: target of 50% of units at 80% of AMI or below, with preference given to projects with deeper affordability

Subordinate Debt

Description: Acquisition, construction, or construction to permanent financing with a second lien position available for projects to support mixed-income development in areas of high opportunity

Overview of terms: Up to $3 million per project; up to 95% LTV; interest rate up to 3.75%; minimum DSCR of 1.1; term up to 18 years; 5% equity required from developer; 70% LTV, 6% cap rate on forward NOI at exit; maximum of 5% IRR; maximum developer fee of 7% of TDC

Affordability requirements: target of 50% of units at 80% of AMI or below, with preference given to projects with deeper affordability

must maintain long-term affordability using deed restrictions. These requirements will be enforced and monitored by CHOIF for the life of the investment. More detail about each fund product is shown to the right.

All CHOIF-financed projects must also accept housing vouchers with no discrimination against income source, and must be located in areas of high opportunity (as identified by Opportunity Insights). High opportunity areas are census tracts identified by the Opportunity Insights research team as those that promote family economic mobility, characterized by: low poverty, low crime rate, access to high performing schools, access to transportation, access to employment opportunities and other factors that promote good quality of life.

Project applicants are accepted in each RFP round, and include five broad stages:

- Dual review of applications by LISC and the City of Charlotte
- Review of applications, and vote to approve projects, by City Council
- Underwriting and detailed review by CHOIF Investment Advisory Committee
- Financing closing and funding
- Construction and monitoring

CHOIF issued its first Request for Proposals in May 2020. In its first two rounds, the fund supported the creation of over 600 units through $14.7 million total investment ($24,000 per unit). 420 of these units were in 4 percent LIHTC projects, and all six awarded projects also utilized HTF dollars and/or city land, demonstrating the fund's ability to leverage existing sources to expand unit production and improve project location and quality.

Early experience, insights, and lessons learned

Buy-in and alignment with the City is key

Because CHOIF was designed with the explicit intent to leverage existing sources of public financing for affordable housing development (i.e., HTF and HOME), it was critical to design the fund products and application process so that they work seamlessly together. Aligning application timelines, funding approvals, and fund products was critical to get buy-in from public sector partners and to set CHOIF up for success.

Early and ongoing developer input is very helpful

Engaging developers during fund design and while refining each RFP helps the fund identify and target what is missing in the market. While developer input should not directly shape what the fund offers, experience and insight from trusted advisors can help the fund be more effective in achieving its desired outcomes.

Do not underestimate the time needed to close the fund

A fund built from the contributions of many partners will require approval and agreement from all of those partners; this review can take time. This process can be made more efficient by lining up legal review periods and approvals across organizations at key milestones.

Make sure the fund is sustainable

As with any fund that is intended to revolve at some level, it is important to ensure a development fund can support itself while providing different products to different deals. Getting the right balance across different types of deals (e.g., low-cost debt and equity) can help with sustaining the fund while also meeting project needs.

Considerations for Omaha and Council Bluffs

Successful implementation of a development fund will require careful consideration and planning by key partners. Several key questions are outlined below:

- What range of development projects will the fund target (i.e., size, location, affordability mix), and what financing products are best suited to meet those projects' needs?
- How can the fund and its financing products help to build the capacity of the mission-oriented development ecosystem in the region (e.g., through technical assistance, financing terms, etc.)?
- What is the fund's unit number target for impact? How will leaders in the community assemble the needed commitments from contributors?
- What are the operational and administrative requirements of successfully implementing this type of fund? What entity has the needed capacity and expertise?
- What reporting will be required of borrowers/ fund participants? What is an appropriate balance between oversight and administrative ease (e.g., for mixed-income housing development partners not experienced with LIHTC program compliance requirements)?
- How will partners generate interest in participation? What will the application process be (e.g., annual RFP, rolling application and review process, or another option)?
- How will a private-led fund align with public sources of funds?
- How should partnerships between the administrator of the fund and contributors be structured? Who will be engaged in oversight, in loan review, in data sharing and reporting, etc.?