

NSP II Narrative
Regional Housing Alliance of La Plata County

Proposed Activity (narrative of chart)

Specifically RHA would like to target three micro-markets within the targeted census tract 970600, which encompasses the Town of Bayfield and surrounding areas.

1) Southviews is a master planned mixed-use mixed-income subdivision located just off the main highway through town. This Seventy-five acre residential tract has fallen victim to the restricted credit markets and dramatic shifts in market demand. At a time when building permits have dropped 75% in the last four years, this subdivision teeters on the brink of foreclosure. RHA proposes to acquire vacant lots in this distressed subdivision and to build and sell new infill homes to NSP-qualified homebuyers, under Redevelopment, an eligible grant activity. The other eligible activity will be to acquire and redevelop a 50 unit site for a Low-Income Housing Tax Credit Development in this neighborhood.

2) Fox Farm Village is a 50 unit affordable housing subdivision developed by a local nonprofit to provide affordable housing through partnerships with Habitat for Humanity and a self-help developer. The project began at the height of real estate appreciation in 2004 but due to turnover of staff at the local nonprofits the subdivision is only partially built and is starting to depreciate because it has 14 scattered un-built lots. The RHA, with NSP II funds, will acquire these vacant lots in this distressed subdivision to build new infill homes for NSP-qualified homebuyers, under Redevelopment, an eligible grant activity. Activities in both Southviews and Fox Farm Village will ensure that neighborhoods are completed and property values stabilized.

3) Finally, RHA will target foreclosed homes, mostly with three bedrooms, in certain affordable parts of this census tract that are currently valued from about \$250,000 to \$300,000 that could be acquired by some of the 120 families currently working with RHA to purchase a home with counseling and down payment assistance loans averaging \$50,000—both of which are eligible activities under Financing Mechanisms. Many of these foreclosed properties are clustered in a few subdivisions such as Forest Lakes, another affordable housing subdivision in the target census tract. These foreclosures—at discounts of as much as \$50,000, combined with the down payment assistance—provide a unique opportunity for low- and moderate-income families to attain affordable, stable homeownership. Our need studies indicate that families with incomes up to 120% of AMI are otherwise almost completely shut out of our very expensive home-buying market.

By carrying out this concentrated development and financing program, RHA, employing NSP eligible activities, will have a significant and measurable impact on three neighborhoods which are suffering from the mortgage and foreclosure crisis—and at the same time create 46 much-needed new affordable homeownership opportunities for low- and moderate income families, as well as 50 opportunities for low- and very-low-income renters.

Target Geography

The Regional Housing Alliance of La Plata County (RHA) will target NSP II funds to a single census tract (CT 970600) that includes the town of Bayfield, Colorado (population 1,800) and the surrounding area which, until recently, was rapidly being built up with new, moderate priced

home subdivisions. Bayfield is located in Southwestern Colorado adjacent to one of the largest natural gas development fields in North America. Because of its mountain ranges, ski area, lakes and rivers, La Plata County has become a major destination for tourists, second homeowners and retirees. There are three incorporated towns in La Plata County: Durango (county seat 15,000); Ignacio (800) and Bayfield. Of all these communities, Bayfield's demand for new housing has been dramatically impacted by the recent gas development activities, having grown 20% since the 2000 census. Much of the draw to Bayfield is its rural character, great schools and access to recreational opportunities, and for several years it's more affordable real estate prices. That is until the economic crisis of 2008. A town that struggled to keep up with housing demand, spent millions increasing its water and sewer capacity for development, now finds itself victim to high foreclosure rates and partially built subdivisions—due (we believe) primarily to the tightening up of the mortgage markets. La Plata's unemployment rate remains very low compared to the national average.

What will absorption rate be WITHOUT NSP funding?

Without NSP funds absorption will remain low (92 homes per year) because of the drop in market for existing homes, and most importantly, these aforementioned neighborhoods will likely depreciate and potentially exacerbate foreclosure rates in this small community. To date, Bayfield has 137 homes in foreclosure which is 19% of its housing stock. RHA's NSP strategy would increase absorption by assisting with the sale of 46 homes and develop 50 rentals over the 2 year period, this is a 50% increase in the absorption rate of for sale properties because of NSP funding. Furthermore, RHA will achieve this by ensuring that affordable housing opportunities are created out of this housing crisis, through partnerships and providing additional subsidies if needed to provide an average home price of \$200,000 (market median income for Bayfield is \$247,000).

Market Decline

Specifically, sales were down 35% in the first quarter of 2009 with only 23 homes sold in town and outside of the Bayfield area. The absorption rate in Bayfield for homes priced from \$100,000-\$199,000 is about seven homes per month versus at least double that rate before the mortgage markets tightened up. Currently there is a 11.5 month supply of homes priced under \$200,000 and over a year for higher-priced homes. Fourth quarter 2008 sales in the same target market dropped 38% (from 166-103). There are two key factors to this drop in absorption, change in market demand for homes priced above \$300,000, and homes priced below \$300,000 are scarce given that many were planned to be developed in these currently troubled subdivisions.

Other Negative Impacts on Market

As the largest producer of natural gas in Colorado, La Plata County has experienced direct and significant impact from the oil and gas industry. Increased demand has resulted in housing costs doubling in La Plata County over six years. At the crux of the affordability crisis is a major shift in economic activity that began in the 1980's. La Plata County developed primarily as an agricultural and extractive industry economy in the late 1800's. But in the late 1980's the county was 'discovered' both by wealthy tourists wanting to purchase second homes and by the oil and gas industry, which is now furiously extracting one of the best gas deposits in the western United States. The economic base of La Plata County is quite similar to communities throughout the Rocky Mountain west experiencing tremendous growth – high cost of living, high debt, expensive housing, transient populations, and people working two and three jobs.

As a result of this growth the past several years' real estate was strong in Bayfield encouraging land development activities, coupled with the Town's expansion of their water and sewer capacity, several developers moved forward to begin subdivision developments.

With the recent credit crunch and national economic downturn these subdivisions are now on the brink of failure/foreclosure. However, given the current economic reality of real estate there is a real opportunity to participate in this market and create affordable homes (\$150,000-\$225,000). Demand for homes has gone down for market rate housing (\$275,000 and above) but not for affordable housing where there is significant pent up demand for homes under \$225,000. The RHA's pipeline of interested buyers is currently 120 people; a developer recently introducing housing starting at \$219,000 in Bayfield and has created a waitlist of 77 families in three months. With NSP funds RHA will be able to offer housing opportunities under \$200,000 therefore increasing the market absorption for the community.

Another key factor impacting affordability is the demand created by significant growth in the past 20 years. For example, in 2000, the total number of households in La Plata County was 17,342, a 45 percent increase from 1990.

The second home market and a robust tourism economy have resulted in a fairly low unemployment rate of 5.8%. However, wages and employment outside of oil and gas are highly dependent on low paying retail and service sector jobs driven by a tourism economy. The service sector provides 42% of jobs and 35% of employment income. The trade sector accounts for 14% of jobs and 12% of employment income. Government is also an important sector, providing 17% of employment and 21% of employment income in 2005. Proprietors (owners) make up 20% of total employment, while wage and salary jobs account for 80%.

Income Characteristics

Bayfield's demographic make-up mirrors that of La Plata County's where families have modest incomes compared to their counterparts elsewhere in Colorado and the nation as a whole, yet are coping with higher than average home prices. Compared to the state and the nation, La Plata County has a higher percentage of families with incomes under \$50,000. The median home price increased 104% over six years - while median incomes have increased only 20%. The expensive real estate market in combination with a community median household income below national median household income creates incredible economic strain for low-income families.

Approximately 7,000 families in La Plata County - about one-third of the population - have incomes below \$30,000 (50% AMI). Many of these very low-income families may have purchased homes when they were more affordable, or are currently paying lower-than-market rents. However, La Plata County has a significant portion of the workforce barely making ends meet. La Plata County also has a large number of households living below poverty level; approximately 1,500 households (about 7%) in La Plata County have annual earnings below \$10,000. Nearly one in five families - 3,500 households - pays over 35% of their income for housing. Further analysis suggests that an estimated 60% of this projected demand will come from households with incomes below 80% of area median income.

There is tremendous need for larger homes (3 BD/2BA) and for homes priced below \$225,000 in La Plata County/Bayfield. Affordable rental housing is very scarce for renters with incomes under 50% of median income. Although prices have dropped in the target market of Bayfield (15-20%); there are many families who still cannot afford the 2009 first quarter median sales price in Bayfield of \$247,500. Coupled with tighter credit and the difficulty for many families in obtaining a first mortgage, the drop in home price will not be enough to ensure stabilization for this community.

The 2007 Needs Assessment states that federal and state housing funds are available to serve low-income (below 80% AMI) renters and (to a lesser extent) homeowners. But the amount of funding is insufficient, and virtually no government funding is available for households earning 80%-125% AMI who are still priced out of the current market.

Almost no new homes in La Plata County, other than mobile homes, are affordable to households with incomes below 125% of median income – about \$78,000 a year.

How will proposed activities improve/stabilize conditions?

RHA's mortgage assistance program will absorb foreclosed homes stabilizing neighborhoods while providing critical affordable housing opportunities to families earning between 50%-120% AMI. The mortgage assistance will fill the Gap between what a family can afford and home's purchase price. The second mortgage has no payment and is due on sale or at refinance of the property.

The purchasing of land in distressed areas will help to stabilize partially built neighborhoods. By providing lots at zero cost to nonprofit development partners the sales price will be affordable to lower income families where there is a larger market demand for housing. RHA projects that homes may start as low as \$140,000 and will take advantage of USDA low interest loans.

Families that go through our homebuyer training and counseling program will be income qualified and allowed to be placed on a waitlist for either a new home or mortgage assistance for a foreclosed property. RHA staff works closely with clients to find the best conventional or FHA mortgage product and ensure that the home is in good condition or that repairs are within the families' financial plan, especially on a foreclosed property.

These activities will stabilize the target area in the following ways: 1) increase absorption of for-sale product and foreclosures through education and mortgage assistance, increase absorption of unfinished lots in troubled subdivisions while creating affordable housing for families under 120% of AMI, where there is significant market demand, and stabilizing a failed subdivision by purchasing land for a tax credit that will not only assist with build out of the subdivision but provide much needed affordable rental housing in the community (particularly for families under 50% of AMI).

RHA will partner with at least one nonprofit to build single family affordable homes on the 26 acquired lots in Bayfield. Colorado Housing, Inc. (CHI) has been in business for over 35 years since its founding in 1971 as a 501(c) 3 organization. CHI provides affordable homeownership opportunities through the mutual self-help homebuilding program, homebuyer training, credit counseling and affordable housing advocacy. CHI has successfully built almost 200 homes since inception, making it the most successful home ownership program for low income families in southwest Colorado. CHI has a staff of seven and a board of five with over \$1M in accumulated

land assets and is the only provider of the self-help mutual homebuilding program in southwest Colorado. CHI is committed to building six homes a year during this two year grant period. For the remaining 14 lots the RHA proposes to RFP out the development to a for-profit builder. Already one developer has expressed serious interest in partnering with the RHA in this endeavor.

The Tax Credit site (50 units in Southviews) would be acquired with NSP II funds and then an RFP would be released to find an experienced tax credit development partner to create a joint venture development model.

Organization's Experience

The RHA has a five point action plan that includes homebuyer education and training, mortgage assistance, land acquisition and development, inclusionary zoning development and implementation and policy development.

The RHA's second mortgage program has a strong track record. Created in January of 2008 the program has raised 2 million dollars in capital and closed 30 shared appreciation loans. The mortgage model was recently borrowed by the City of Denver for their NSP II application. The loan product is a deferred second mortgage shared appreciation loan. The shared appreciation mortgage has no payments until the house is sold, refinanced or transferred, at which time the principal loan amount is repaid with a pro-rata share of the appreciation. The share of appreciation is calculated based on the original investment to the purchase price (for example, if the loan amount is 10% of the purchase price, it receives back 10% of appreciation as, in effect, loan interest). The current market value of capital improvements and the original sale prices are subtracted from the equity before appreciation is shared. Shared appreciation loans are recorded with a deed of trust; the minimum amount financed is \$15,000 and the maximum is \$80,000. Loan amounts are based on ability to pay, on a formula that takes into account family size and income; lower income families may receive larger loan amounts. Households with combined incomes of up to 125% of the area median income are eligible for varying loan amounts.

The second mortgage loan product allows the RHA to meet the needs of various clients. The underwriting criteria was developed from the comprehensive needs assessment and was designed to compliment conventional first mortgages, making the product accessible to a wide population, attractive to lending institutions and simple to administer. The product also directly impacts the largest obstacles to homeownership in the county – the difficulty to save money for a down payment due to high cost of living and debt and filling the gap between income and housing prices. The product is also highly attractive to borrowers who appreciate a co-investor and understand equity sharing without price caps or sale restrictions.

The loan funds revolve in perpetuity as loans are repaid. The additional share in equity allows the RHA to keep pace with the market, grow the fund and build future lending assets. Projections anticipate that on repayment the fund will earn about 3% annually on the shared appreciation mortgages.

Preparing low- and moderate- income renters for home ownership is crucial to the success of the financial products and the mission of the RHA. Staff provides one-on-one counseling, pre-purchase training and homeowner education to participating clients. In addition to helping

prepare families for homeownership and obtain financing, the other goals of the program include helping people avoid mortgage default; teach homeownership responsibilities, money management, and home maintenance.

RHA is relatively new to the activity of land development. Staff is currently looking to acquisition of two parcels from the US Forest service. RHA staff has two development consultants under contract to assist with this process, Robert Barron, previously with the Rouse Company and Peter Werwath, previously with Enterprise Community Partners. RHA is also working with the state of Colorado to develop a CHDO organization to facilitate the land development process. For NSP II RHA will partner with nonprofits and/or for-profits to accomplish the vertical development of 26 single family homes and a 50 unit tax credit development. With a strong counseling program we are confident of our mortgage ready pipeline of buyers and feel that this is an incredible opportunity to create affordable housing opportunities.

Waitlist

Key to our NSP II strategy is the ability to create and maintain a pipeline of ready buyers. RHA employs a program manager and a full-time housing counselor to manage our program waitlists. RHA teaches monthly homebuyer education classes and counsels on average 9 families a week. RHA has had an incredible response to its counseling and education program; since it began in the fall of 2007 over 200 families have completed the class and over 250 individuals have contacted the agency for counseling. Currently the agency has a waitlist of 40 mortgage ready families ready to buy but who are in need of mortgage assistance. There are approximately 120 individuals in the counseling program in various stages of preparation. Of the 120 individuals about 20 of them are families under 50% of AMI. The majority of them are families under 120% of AMI. RHA has an extensive counseling program which includes a third party income verification process.

Accessing operating and investment capital

Created in 2004 and funded in 2006 the Regional Housing Alliance of la Plata County is primarily funded through an intergovernmental agreement between four local governments. The RHA's annual operating budget is \$550,000 (\$330,000 from local government). RHA has had great success raising loan capital; in the past 18 months it has raised 2 million dollars from private corporations, state agencies and local fee in lieu from developers as part of an inclusionary zoning program. It also owns a 6 acre parcel assessed at \$250,000.

Working productively with other organizations

The RHA was created out of a community need to help create new resources for affordable housing and to build capacity that would enhance the entire County's housing programs. There are several community development organizations in La Plata County that provide housing services, such as the homeless shelter, housing rehabilitation and weatherization, self-help build programs, foreclosure prevention. The City of Durango and La Plata County have both been proactive in receiving developer contributions. And Colorado Housing Inc utilizes a USDA Rural Development program to finance clients for sweat equity builds. The RHA is the ideal agency to assist in regional collaboration between other non-profit organizations, local governments and the housing and finance industries. The RHA is able to assist with certain activities, such as lending and program delivery, necessary to maximize community resources and housing opportunities. With various community partners the RHA can address an escalating affordability crisis by filling the gap in services and resources for homeownership and rental opportunities.

The need for additional capacity, beyond local government, to help coordinate housing programs and bring them to fruition was realized as the RHA began to implement strategies to create resources and build a pipeline of ready buyers.

References

Bill Whaley, State Division of Housing 970-248-7302
 Peter Werwath, Werwath and Associates, 1-410-997-0096
 Scott Aker, Colorado Housing Finance Agency -1-970-241-2341

Income Targeting

By acquiring lots, and partnering with nonprofits, the final sales price will be more affordable to families under 120% of AMI. With the mortgage assistance program RHA will have the flexibility to serve families at or below 50% of AMI. Program waitlists will track incomes served to meet program targets. Rental housing will primarily serve families under 60% of AMI with at least 1/3 below 50% of AMI.

Working with Local Government

The Regional Housing Alliance is a collaboration of four local governments; La Plata County, City of Durango, Town of Bayfield, and the Town of Ignacio. Our board is comprised of elected officials from each of these local governments; we have superb relationships with each of these entities.

Affirmative Marketing

RHA has a comprehensive marketing strategy that includes an active website, earned media, posters/billboards/flyers, rack cards at partner businesses and monthly presentations to community and industry groups. Although the Spanish speaking population is low RHA has two bi-lingual staff persons.

Non-Federal Leverage

The RHA launched its loan program with a 1.1 million dollar contribution from BP America (2008). The RHA manages fee in lieu for developer agreements and currently has \$360,000 from Durango Mountain Resort for mortgage assistance.

Is this program proposed to be consistent with local plans

La Plata County is currently revising its Comprehensive Plan in which RHA will be an active participant to ensure this program is sited as a key housing strategy.

Proposed Budget

Strategy	Appraised value	Sales price	Total costs
Acquisition of 14 lots at Fox Farm	\$32,000	\$30,000	\$420,000
Acquisition of 12 lots at South views	\$45,000	\$40,000	\$480,000
Acquisition	\$900,000	\$600,000	\$600,000

of Tax credit site at South views (50 lots)			
Loan funds for 20 loans (ave. loan \$50,000)	NA	NA	\$1,000,000
Program delivery costs (5%)			\$125,000
Total NSP budget			\$2,625,000