



Portland Housing Bureau

Mayor Ted Wheeler • Interim Director Shannon Callahan

April 24, 2018

To: N/NE Neighborhood Strategy Oversight Committee
From: Andrea Matthiessen, Neighborhood Housing Program Manager
Re: Review of Current PHB Down Payment Assistance Loan Terms

Background

Since 2015, Portland Housing Bureau (PHB) has provided down payment assistance loans (DPALs) with no interest and no payments until the expiration of the 30-year loan term. At that time, a property owner has the option to:

- 1) repay the loan by refinancing or taking out a home equity loan
- 2) begin making payments on the loan amount, or
- 3) extend the loan terms

PHB has recently evaluated these DPAL terms through a review of historical Bureau loan portfolio data, current Portland market conditions, and national best practices from comparable jurisdictions to provide options for the Bureau, N/NE Oversight Committee, and PHAC to consider as we evaluate potential impacts of the loan terms on assisted households over the life of the loan.

PHB Homeownership Assistance Loan Portfolio

Since 2000, the Portland Development Commission (PDC)/PHB have assisted 277 households achieve the dream of homeownership netting a total current outstanding balance of approximately \$9.3 million. Of these loans,

- 46% were made to homebuyers from communities of color, although assistance to homebuyers from communities of color increased from 30% between 2000 and 2012 to 70% between 2012 and 2017 when PHB began allocating down payment assistance through culturally specific counseling agencies.
- 16% were made to households at less than 50% AMI
- The average loan amount was \$48,000
- 16% of down payment assistance loans have been made to households buying homes held in a community land trust.

An analysis of estimated appreciation associated with loans in the current portfolio was reviewed for disparities between geography, income, and race/ethnicity to determine potential financial impacts of repaying DPAL loan balances. Additionally, an analysis of Bureau payoffs and write-offs was conducted for the same purposes. The initial evaluation does not identify negative disparities in appreciation or payoff rates for communities of color but reflects some of the highest rates of appreciation have been experienced overall by African American homebuyers. Some neighborhoods have seen greater rates of appreciation (St. Johns and Portsmouth are higher than Lents, for example). The Bureau will continue to review available loan portfolio data to evaluate potential impacts of the different historical

down payment terms (shared appreciation, land trust model, current DPAL) for potential disparities.

Homeownership in Portland

1. Affordability and Housing Stock

The average Portland sales price hit \$470,000 in 2017 and very few neighborhoods are affordable to a household of 4 under 80% AMI who can, on average, afford a mortgage of \$200,000. Between 2012 and 2016, the median home sales price citywide increased by 34%, or over 100,000. Over the past several years the Lents-Foster neighborhood has seen the most significant increase in median home sales price, increasing nearly 50% between 2011 and 2016. A homebuyer looking to buy a home below \$300,000 would only have six neighborhoods to search in, four of which are located in East Portland.

Sales data indicates access to affordable, single family homes is quickly declining in Portland—in 2017, 50% of homes sold with purchase prices below \$260,000 were rowhouses, townhomes, or condos, up from 37% in 2016 and 28% in 2015.

2. Demographics and Income

Forty-seven percent of Portland households are renters. Approximately a third of households earn incomes above 65% AMI and may have the potential to become homeowners with down payment assistance. Of these households, 20 percent are from communities of color. Although there has been a significant increase in home sale prices over the past 5 years in Portland, median household incomes have not risen at a comparable rate, especially for renters, which is a barrier to homeownership, particularly for families of color that tend to have lower credit scores and higher levels of debt.

3. Racial Disparities in Homeownership and Wealth Creation

Households from communities of color in Portland experience disproportionately low homeownership rates when compared to white households, with approximately 55% of white households owning homes compared to 27% of households from communities of color.

When compared to data from the year 2000, homeownership rates have fallen in 21 of 24 neighborhoods in the city, with the most dramatic declines occurring in East Portland. In addition to lower rates of homeownership, the wealth of households from communities of color is significantly less as well. Communities of color experience significant disparities in median incomes when compared to the population as a whole, or their white counterparts. The median income for white households in Portland is roughly \$57,000, as compared to \$27,000 for Black, Native American, and Hawaiian-Pacific Islander households. Hispanic-Latino households have a median household income of \$36,312, and the median for Asian households is \$53,377. Homeownership is a critical tool to help create wealth for communities of color and address the generational wealth gap.

Down Payment Assistance in Other Jurisdictions

A survey of jurisdictions with similar populations and housing markets to Portland (Austin, Minneapolis, Denver, and Seattle) appears to indicate down payment assistance falling into

two primary categories: 1) Lessor amounts of down payment assistance (up to \$15,000) that are provided in the form of grants and 2) More substantial amounts of down payment assistance (up to \$50,000) that require repayment, generally upon sale or 30 years. Two jurisdictions (Oakland and San Francisco) were identified as providing down payment assistance amounts in a range similar to Portland (\$75,000 and higher). In addition to requiring repayment at sale of property or 30 years, these jurisdictions also charged annual interest rates (up to 3%) or a share of appreciation when the property sells. Washington D.C. provides substantial loan amount (\$80,000) that requires repayment only when a property is sold, transferred, or refinanced.

Recommendations

1. Down Payment Assistance Amounts

The amount of assistance provided should be adequate for homebuyers above 65% MFI to avoid paying Private Mortgage Insurance (PMI). The amount should consider the limitations of Tax Increment Financing (TIF) that require a portion of the down payment assistance award to address home repair needs. Subsidy amounts should also be calibrated based on average sale prices within a variety of Portland neighborhoods, including those with specific URA boundaries.

2. Loan Repayment Terms

Loan terms associated with Bureau down payment assistance should be structured to ensure equitable outcomes for all assisted households over the life of the loan and not to create a financial hardship for homeowners, particularly those on a fixed income. Estimated rates of appreciation for properties in the current DPAL loan portfolio may reflect appreciation that is adequate to support the repayment of down payment subsidies. However, older homebuyers on a fixed income are unlikely to have access to conventional refinancing or home equity products that require traditional debt-to-income ratios. These homeowners that are “house rich and cash poor” cannot likely bear the burden of the additional monthly expenditures that would be required to liquidate the equity in their home. PHB is currently recommending forgiveness of down payment assistance loans be phased according to the following schedule:

Year	Forgiveness
15	50% of original DPAL debt
16-29	3% of original DPAL debt annually
30	100% of original DPAL debt

This acknowledges data from the current DPAL loan portfolio indicating homeowners remain in their homes an average of 10 years. As Portland home prices continue to increase, homeowners may stay in their homes longer as it becomes more challenging to relocate and purchase larger homes. As the Bureau focuses the efforts of homeownership programming on increasing the number of homeowners from communities of color, this recommendation proposes to structure loan terms in a way that supports the ability of households to build wealth through property ownership that can be passed on to subsequent generations.