



Department of Neighborhood Development (DND)  
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## POLICY UPDATE JULY 1, 2010

### LIMITING ASSETS AND CERTAIN FORMS OF FINANCING IN DND HOMEBUYER & *HOMEWORKS HELP* HOME REPAIR PROGRAM

#### BACKGROUND

Due to housing market conditions, this policy was last amended and implemented in October 2005, to establish an asset limitation of \$75,000 to homebuyers applying for government assisted housing. The background, process and new policies established are detailed on the following pages and currently apply to all DND-assisted new homeownership units except for market-rate units and all resale units that receive their certifications through DND.

This policy is reviewed annually as DND prepares and submits the City's Action Plan to the U.S. Department of Housing and Urban Development (HUD) indicating how federal funds will be used to address priority housing and economic needs. As a result of that process, a recommendation was made to extend the Asset Limit Policy to include the *HomeWorks Home Equity Loan Program (HELP)*, a program offering government subsidized loans for approved home repair projects. This decision is based on the Department's desire to uniformly apply income-eligibility requirements to homebuyer and home repair programs where household income is a major determinant for eligibility.

**New Policy & Implementations:** Effective July 1, 2010, DND has determined that new *HomeWorks HELP* applicants with more than \$75,000 in assets are not eligible for the Program. Further, that all assets, whether in cash, equity in non-primary real estate, investments funds or any other item of value will be included in the determination of assets. The only exception to this is primary residence, government-approved retirement funds and college savings plans. If an asset is necessary to the owner's primary source of income, such as a business owned, some or the entire asset may be exempted from the calculation only to the degree necessary to maintain the owner's income stream.

## **POLICY REVIEW**

### **LIMITING ASSETS AND CERTAIN FORMS OF FINANCING IN DND HOMEBUYER PROGRAMS EFFECTIVE DATE: OCTOBER 20, 2005**

#### **BACKGROUND**

From time to time income-qualified homebuyers may have substantial savings (from an inheritance, divorce settlement, from a parental gifts, or simply through diligent savings) that can be used toward the purchase of a house. While these homebuyers meet the income-eligibility standards to purchase the unit, their ability to make a very large downpayment calls into question whether they are truly in need of governmentally assisted housing.

Based on the general principle that DND does not want to penalize people for having a strong savings ethic, DND has historically not considered assets above the amount needed for a downpayment in determining eligibility for a subsidized ownership unit. The single exception to this is in the Downpayment Assistance Program that uses an asset needs test to determine the needed level of downpayment assistance.

As market prices increase beyond the reach of an ever-growing segment of the population, there are ever-expanding pools of applicants for every unit. This is especially true in the highest priced neighborhoods where affordable units may be selling for a fraction of their market value. This reality means that it is more important than ever that only those homebuyers that absolutely need government-assisted housing are able to purchase these units. With no asset limitations, it is possible that an income-qualified homebuyer with a large amount of savings or other assets could get a City-assisted unit even though their financial position would enable them to buy in the private market without government assistance. This would not be a desirable outcome and therefore necessitates a re-evaluation of DND's policy toward assets in determining homebuyer eligibility.

The U.S. Department of Housing and Urban Development (24CFR5.609) establishes savings policies relative to the Section 8, Public Housing and Assisted Housing Programs. This policy converts savings to income by adding a passbook savings rate of return to the income of the applicant. DND has determined that this policy, designed for rental assistance programs, does not adequately reflect the impact of savings when it comes homebuying. For example, \$100,000 in savings applied to a downpayment could easily cut a buyer's monthly mortgage payment in half, but would only add \$1,500 to their income using the HUD formula. Consequently, DND has decided to develop its own policies with regard to assets that is more appropriate to its homeownership programs.

## **POLICY REVIEW PROCESS**

To assist in the development of a policy on assets and buyer eligibility, DND contracted with Urban Resource Group (URG) in February 2005 to advise the agency on this issue. Rose Associates reviewed the profile of the Home Center buyer pool to determine if this issue was widespread or rare. URG also reviewed assets limitations policies in other jurisdictions and at the State. In the spring of 2005 URG staff met with DND staff from the Directors Office, Administration and Finance, Homebuyer Assistance, Homeowner Services and Neighborhood Development Divisions to review their preliminary findings and develop policy recommendations. A final report was produced in July 2005. Following on that report, DND staff reviewed the recommendations and in September 2005 made the final recommendations included in this document. In early October, 2005, the Boston Fair Housing Commission made a determination that the policy would not have any fair housing impacts and could be implemented without amending existing approved affirmative marketing plans.

## **KEY FINDINGS**

1. The profile of the purchasers from the Home Center homebuyer pool showed that buyers with significant assets was relatively rare – only 4.9% of 61 homebuyers completing sales in 2004 had \$50,000 or more in savings. 8.1% of potential buyers in the entire homebuyer pool (671 applicants) had more than \$50,000 in savings. This data indicates that while the issue is not widespread, there is the potential that there could be buyers who have the resources to buy in the private market will get City-assisted units.
2. In other jurisdictions, asset limitations are tailored to the specific goals of the program. For example CHAPA and DHCD both administer homebuyer lottery programs statewide including units resulting from Chapter 40B Comprehensive Permits. They have a \$50,000 asset limit with waivers up to \$150,000 for buyers over 55 to encourage seniors to “downsize” into an affordable condo and make larger homes available for families. Habitat for Humanity has a \$15,000 limitation. The City of Cambridge has a \$50,000 limitation that may be revised upward soon. There is no standard method used to determine if a program has asset limitations, and at what level the limitation should be set. DND will have to make that determination itself based on program objectives.
3. The City should look beyond just limiting assets as a means of excluding buyers that have other options in the market. For example, well-off parents can cosign a mortgage for their income-eligible son or daughter or even finance the purchase directly. These buyers could certainly use the same mechanism to buy in the private market if they chose.
4. Based on current market conditions (see Table 1 below), a household of 3 with an income at 80% AMI does not have many options in the private market if they do

not have significant savings. With no savings beyond those needed for a 3% downpayment, this household can afford less than 6% of all sales in the private market and would have access to less than half of Boston's neighborhoods. If that household had \$75,000 to put toward a downpayment, there are many more options in the private market. This household could afford to buy at least 20% of all market rate sales of appropriately sized units<sup>1</sup> in the majority of Boston's neighborhoods including Allston-Brighton, Dorchester, East Boston, Hyde Park, Jamaica Plain, Mattapan, Roxbury, and Roslindale. In FY05, this represented 819 properties in their price range.

**TABLE 1  
ANALYSIS OF MARKET OPTIONS AVAILABLE TO A 3-PERSON HOUSEHOLD  
WITH AN INCOME OF 80% AREA MEDIAN FY2005**

Threshold (Minimum Percent of Neighborhood Sales Available to Buyer)	Number of Neighborhoods Meeting Threshold	Percent of Citywide Sales Available to Buyer	Number of Properties Available	Downpayment Required to Meet Threshold
5%	7 (8 is a majority)	5.9%	203	3% Down (\$6,400)
15%	8	16.0%	551	\$50,000
20%	8	23.7%	819	\$75,000
30%	8	30.2%	1,044	\$100,000

<sup>1</sup> Defined as all 2 or 3 bedroom 1-family or condominium sales.

## NEW POLICIES

1. **Establish an asset limitation of \$75,000.** The City has determined that if a buyer can afford at least 20% of the market rate sales in a majority of Boston's neighborhoods, then that buyer does have reasonable options in the private market, and does not need a government-assisted unit. Based on current market conditions, this leads to an asset cap of \$75,000. While it is true that these buyers may not be able to afford the property type (e.g. a single family) in the neighborhood they most prefer, most first time homebuyers, whether they are government-assisted or not, must have to make compromises on property type and location in order to get into the market. Government assistance should be to create options for those who have none, not expand options for those who already have some. The City recognizes that while this cap exceeds that used by some other agencies (e.g. DHCD, CHAPA) it is reflective of the lack of lower-priced options within the city compared to the options available statewide.
2. **All assets, whether in cash, equity in real estate, investments funds etc. will be included in the determination of assets.** The only exception to this is government-approved retirement funds and college savings plans<sup>2</sup>. Only if a retirement account or college savings plan is to be liquidated to support the home purchase, will it be added to the asset calculation. If an asset is necessary to the buyer's primary source of income, such as a business owned by the buyer, some or all of the asset may be exempted from the calculation only to the degree necessary to maintain the buyers income stream<sup>3</sup>.
3. **Arms' length financing will be required of all buyers.** This will prevent family members from using an income-eligible family member to qualify for an assisted unit while other potentially non-eligible family members get an interest in the unit by providing the financing.
4. **Co-signers.** Co-signers are only permitted when they are going to reside in the property. A co-signer's income will also be considered in determining eligibility.
5. **Review the asset limitation annually.** Since this policy is based on options found in the private market, it is necessary to update it from time to time to reflect current market conditions. This annual review will be conducted by the Policy Development & Research Division as part of the annual process for determining and publishing the City's Statement of Affordable Rents that is included in the Annual Community Development Action Plan.
6. **Applicability.** This policy will apply to all DND-assisted new homeownership units except for market-rate units. It will apply to all resale units that receive their certifications through DND.

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<sup>2</sup> DND may include in this exemption other tax-deferred non-housing savings plans in the future as they enacted by Congress or the State Legislature.

<sup>3</sup> This will be done on a case-by-case basis and will be documented in the client file.

## **IMPLEMENTATION**

1. This policy will be applied to all DND new homeownership developments that have not substantially completed the buyer selection lottery as of the date this policy was approved by the Director of DND: October 20, 2005. Program divisions will notify developers and marketing agents of these changes expeditiously so that marketing schedules will not be disrupted
2. This policy will be applied to all resale units that do not have a purchase and sale agreement signed by both parties prior to October 20, 2005. DND's Compliance Unit will immediately notify all owners that have received a Maximum Resale Price notification letter in the last 6 months but have not yet presented a purchase and sale agreement to DND as of the effective date of this policy.
3. Households that are determined to be ineligible as a result of this policy cannot simply restructure their finances and reapply. But neither will they be forever denied access to affordable housing units if their economic situation changes. There will be a two-year waiting period. The City has chosen a reasonably lengthy period to serve as a disincentive for people who might hide or spend down assets just to become eligible.

## **POLICY MODIFICATIONS & WAIVERS**

**Policy Modifications.** DND recognizes that there will be additional issues and questions that arise as this policy is implemented in the coming months and it is anticipated that clarifications and revisions will be needed. To facilitate the process of making these clarifications, the internal DND working group that developed these policy recommendations will continue to review the implementation of this policy on a monthly basis through the end of FY2006 and make recommendations to the Director of DND on any changes that are needed to make the policy more effective.

**Waivers.** DND recognizes that there will be cases where this policy may have unintended outcomes and that best interests of the City are served by waiving the policy in specific circumstances. In granting waivers, DND will consider any undue hardship that this policy places on either the buyer or the seller. It will also take into consideration whether or not the primary intent of this policy, to prevent people with options in the private market from getting a City-assisted unit, is being violated. Each waiver request must be in writing from the Deputy Director in charge of the requesting program explaining why the waiver is in the best interest of the City. Every waiver must be approved by the Director of DND or his/her designee. Waivers may be for a single instance or may be blanket waivers for all cases with similar circumstances.

## AMENDMENTS AND CLARIFICATIONS PAGE

EFFECTIVE DATE	DESCRIPTION
May 15, 2006	Clarification: As part of the proposed Action Plan for Community Development, DND/Policy Development & Research determined that market conditions have not changed sufficiently to merit a change in the Assets limitations defined in the policy.
May 1, 2007	As part of the annual Action Plan for Community Development, DND/Policy Development determined that the 2006 market has not changed sufficiently from 2005 to necessitate a change in the asset cap.
May 2008	As part of the new 5-year Consolidated Plan and annual Action Plan for Community Development, DND/Policy Development determined that the 2007 market has not changed sufficiently from 2006 to necessitate a change in the asset cap.
May 2009	As part of the annual Action Plan for Community Development, DND/Policy Development determined that the 2008 market has not changed sufficiently from 2007 to necessitate a change in the asset cap.
May 2010	As part of the annual Action Plan for Community Development, DND/Policy Development determined that the 2009 market has not changed sufficiently from 2008 to necessitate a change in the asset cap for Homebuyer programs.
July 1, 2010	As part of the annual Action Plan for Community Development, DND/Policy Development extended the Asset Limit Policy to include the <b><i>HomeWorks <u>H</u>ome <u>E</u>quity <u>L</u>oan <u>P</u>rogram (HELP)</i></b> . This decision is based on the Department's desire to uniformly apply income-eligibility requirements to homebuyer and home repair programs where household income is a major determinant for eligibility.