

A step in the wrong direction: “Affordable Homeownership Preservation and Equity Accumulation Amendment Act of 2013” (Bill 20-604)

District of Columbia Councilmembers,

We applaud the leadership you have consistently shown in dedicating resources and establishing policies to promote the development and preservation of affordable housing in the District. We are concerned, however, that the recently proposed “Affordable Homeownership Preservation and Equity Accumulation Amendment Act of 2013” (Bill 20-604), which would lower affordability periods for homeownership units supported by the Housing Production Trust Fund, is a step in the wrong direction for a city that continues to struggle with providing enough affordable units for all of the households that need them.

The bill proposes that affordability periods be lowered from 15 years to 5 years in “distressed” neighborhoods, defined as those with a poverty rate of 20% or more. This means that a low income household can buy a home (made affordable with assistance from the Trust Fund), sell it in 5 years and (assuming the home has grown in value) take all of the proceeds of the sale. The next low income buyer would need to come back to the city for assistance to make the unit affordable to them, or the unit would go to a market rate buyer. Even though the bill would require the initial subsidy be repaid, it would likely not be enough to fully support an affordable unit at the same income level and it would make it harder to find property in the same neighborhood to create affordable homeownership opportunities.

While the bill’s supporters intend to affect areas where home values are depressed and where turnover is low, the 20% of poverty threshold captures many neighborhoods where this is not the case and where, indeed, we would likely want to enforce longer, not shorter, affordability periods because of the loss of affordability in those neighborhoods. There are a few problems with the bill’s approach:

1 – A neighborhood’s poverty rate is a poor indicator of whether its homeownership market is distressed. Neighborhoods like Mt. Pleasant, Columbia Heights and Bloomingdale where we have seen much loss of affordability over the past decade still have poverty rates above 20 percent. We want to stem the tide of loss of affordable units in those neighborhoods, though, not help it along.

2 – The poverty rate data at the neighborhood level can be as much as 5 years old by the time it is released. Again, the concern is that we might end up lowering affordability periods in a neighborhood where we should be protecting or raising it. If we are depending on poverty rate data that is either old or not a good barometer for the changes that are happening in an area, we cannot protect affordability where we need to. The better way is to look at neighborhoods where the concurrence of low values, low appreciation and low turnover is truly creating a perfect storm where it is difficult to get people to buy in if you put too many restrictions on them. Simply looking at the poverty rate does not accomplish this.

We appreciate the bill’s intent to do more to help low-income buyers build wealth via their homes. We believe in that goal as well. We think it is achievable, however, without lowering affordability periods.

Extensive research on this topic also shows that some two-thirds of those buyers who sell in 5 – 7 years get enough of a return - by taking all of the equity gained through paying their mortgage, and a portion of the equity gained through their home increasing in value - to buy into a market rate unit with no restrictions on their next purchase.

We urge you to make changes to this proposed bill that would protect the District's investment and help low-income buyers at the same time. We want to engage in a broader conversation about how to improve our Trust Fund's ability to create affordable homeownership opportunities, particularly as it is back on track with receiving and distributing funds after a painful recession and housing crash. We look forward to continuing to discuss this and the broader needs to be met by the HPTF in the District in the future.