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Enabling Private-Sector Lending for Affordable Housing: HUD/UN Forum with African Countries

Secretary Jackson makes remarks at the Overseas Private Investment Corporation and Ghana Home Loans Memorandum of Understanding signing ceremony.

Mobilizing the private sector and domestic financial services industry to invest in affordable housing is a HUD policy priority of global importance. In response to demands from the international community for venues in which to share policy measures, HUD and the United Nations Habitat program recently organized a policy exchange forum called the Africa High-Level Peer Exchange on "Government Enablement of Private Sector Lending for Affordable Housing."

In November 2006, HUD Secretary Alphonso Jackson led a U.S. delegation to Accra, Ghana to host the forum for West African countries. Housing experts from the Ministry of Housing, Ministry of Finance, and the banking industries of eight African countries attended the policy exchange forum. Participating countries included Ghana, Senegal, Nigeria, Benin, Cape Verde, Liberia, Mali, Mozambique, India, Canada, and the United States. In his keynote address, Secretary Jackson stressed the critical importance of public-private partnerships for improving access to affordable housing. He emphasized that a healthy housing market and a society that values home-ownership can be an important source of economic growth. Forum sessions focused on attracting investments by exploring private-sector approaches to affordable housing, the role of public-private partnerships and financial intermediaries, and government regulatory frameworks and incentives.

Private-Sector Approaches to Affordable Housing

Forum participants first explored approaches that the formal domestic financial services industry can use to promote affordable housing. Private-sector housing finance in West Africa has historically been the purview of a select few building societies established in the colonial era and embraced by newly independent governments as vehicles for meeting the housing needs of young nations. The performance of some building societies has been uneven at best. Most institutions have catered to the high end of the market, adopting credit history requirements,

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PD&R U.S. Department of Housing and Urban Development Office of Policy Development and Research

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charging fees, and setting rates of interest prohibitive to low-income wage earners and those who rely on informal employment. Although some commercial banks have offered mortgages, these are often expensive, short-term, and meet the needs of only a fraction of a rapidly growing population.

In recent years, trends in West Africa have radically altered the playing field of private housing finance institutions, opening the market up to a wider set of players. Decentralization in the subregion, albeit slow, is gradually taking root. Ghana has embarked on a comprehensive land reform policy, and the capital market in Nigeria has grown by leaps and bounds. Similarly, the micro-finance industry has witnessed a four-fold increase in operations. The number of private banks and public-to-private bank conversions has steadily grown, thereby increasing competition.

To meet competition and greater demand, the private banking sector is exploring a number of approaches to housing finance. The preliminary approach is to establish internal operational systems and training that will enable banks to originate and service mortgages. This has proven to be a time-consuming and capital-intensive exercise. Another approach is to secure long-term capital for mortgage lending that will allow banks to move from 5–10 to 15–20 year loans. Most commercial banks in West Africa have an asset-liability mismatch. Their assets are comprised primarily of short-term deposits, while the liabilities that they will incur for mortgage financing are longer-term. Many banks seeking to enter the mortgage market have not fully resolved this problem. Some national branches of multinational banks have secured capital infusions from parent banks, while others seek to attract longer-term money from the domestic capital markets by issuing bond instruments.

Yet another approach banks are taking to enter the mortgage market is to reduce risk. Banks are deeply skeptical about the ability of borrowers to repay loans, especially when dealing with people who do not have collateralized assets, a formal-wage paycheck, and a credit history. Risks incurred by banks can be shared with international finance facilities or governments that offer partial guarantees and risk-sharing mechanisms, such as mortgage insurance that underwrites loans for affordable housing. Risks can also be shared with financial intermediaries who organize and educate borrowers, thus lowering transaction costs that would otherwise be borne by retail banks.

Secretary Jackson meets the tribal leader of the Ashaiman Tulaku community in Ghana.

The Role of Public-Private Partnerships and Financial Intermediaries

The growing demand for housing in West Africa and the limited supply of housing finance from the formal domestic banking sector has generated a wide range of partnerships and financial intermediaries to help fill the gap. The most common intermediary is the extended family and kin-based network. Typically, house construction in the region is self-financed in steps over a period of time. An individual saves his or her own funds, borrows from friends and relatives, and constructs, or has a local builder construct, a foundation and walls. Then the individual saves and borrows more funds, using these to build the roof and finish the interior. Common in rural areas, the stepped self-finance approach is spreading to urban areas and to all levels of income. Another mechanism is the neighborhood association that mobilizes community savings.

Many urban dwellers seek loans for house construction from micro-finance institutions, although they focus on microenterprise and personal loans, rather than mortgage instruments. These borrowers obtain short-term personal loans and use the funds to construct homes. Many are repeat borrowers who start with small loans, pay them back, establish a track record, and then apply for slightly larger loans, all used for housing. *Housing micro-finance*, as it is sometimes referred to, is a growing phenomenon in West Africa.

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Information Technology Streamlines Construction Processes

A community's housing needs pose significant challenges to its state and local governments. Tight budgets, affordable housing supply and demand, and concerns over disaster preparedness and recovery can get officials thinking about their procedures for administering and enforcing local building codes. Initiatives to make these practices more efficient and responsive are being showcased by groups such as the National Partnership to Streamline Government and its predecessor, the Alliance for Building Regulatory Reform in the Digital Age, who have worked with HUD's Office of Policy Development and Research (PD&R) to produce the *Guide to More Effective and Efficient Building Regulatory Processes through Information Technology.*

The *Guide* is a tool for state and local elected officials and for heads of public service agencies who oversee construction. It helps them determine whether to use information technology to modify or improve building codes administration and enforcement. Although information technology is not always a be-all and end-all solution, the *Guide* shows how to assess in-house technical expertise, existing technology, and the capacity for communicating and coordinating across departments. In addition, the *Guide* provides technical assistance for:

- Identifying stakeholders and engaging their help;
- Mapping processes;
- Calculating the costs and benefits of using information technology;
- Accessing a template of software and hardware procurement requirements;
- Locating funds to cover the cost of improvements;
- Preparing a Request for Proposals;
- Evaluating vendors;
- Implementing and integrating technologies;
- Locating people with relevant experience to share; and
- Exploring the role information technology can play in disaster recovery.

This list above suggests that using technology to streamline local building codes administration and enforcement can be a complex undertaking, and yet if we consider the example of Fairfax County, Virginia, where a one-day construction delay caused by the regulatory process cost a builder $100,000, the importance of such reform becomes abundantly clear.

The *Guide* outlines a number of strategies, practices, and programs known to reduce construction costs. For example, Los Angeles has cut the waiting time for permits from approximately 3 hours to 7 minutes, plan check times from 10 weeks to 10 days, and wait times for inspections from as long as 5 days to less than 24 hours. At the same time, the city has had an 88-percent increase in construction volume with only a 1.5-percent increase in staff. In one year, an online permitting process saved Clackamas County, Oregon over $400,000 in costs and reduced staff by two people. Portland, Oregon is testing an electronic permitting program that allows contractors to apply and pay for multiple trade permits from multiple jurisdictions on a single website. Other communities have added online plan tracking, online call-in systems to schedule inspections, and tools such as geographic information systems and electronic zoning maps.

The *Guide to More Effective and Efficient Building Regulatory Processes through Information Technology* outlines these and many other examples of high-tech success in streamlining building regulatory processes. The *Guide* can be downloaded for free at **www.huduser.org/publications/polleg/Bldg_Reg_Process.html.** Other related documents are also available online, including a 2002 Partnership for Advancing Technology in Housing (PATH) report, *Electronic Permitting Systems and How To Implement Them* (**www.huduser.org/publications/destech/electronic_permitting.html**) and "Alliance Model Procurement Requirements for State and Local Government Acquisition of Hardware/Software for Codes Administration and Enforcement" (**www.natlpartnerstreamline.org**).

For those with an interest in regulatory reform that promotes affordable housing, PD&R's *Regulatory Barriers Clearinghouse* (**www.regbarriers.org**) offers over 6,000 state and local strategies, practices, and related resources, all housed in an easy-to-use searchable database.

Transformation on Owasco Avenue

In April 2005, the *Chicago Daily Herald* featured an article about Habitat for Humanity of Northern Fox Valley's plans to build new homes for low-income families in Elgin, Illinois.[1] The Block Build Project called for five single-family homes on Owasco Avenue, a tree-lined street gently sloping down to the Fox River. The first family moved into its newly purchased home by Christmas of that year, and by August 2006, the project was complete. Each home, sited on a fifth of an acre wooded lot, features a front porch, a back-yard, and a garage located unobtrusively at the rear.

The Block Build Project received the HUD Secretary's Award for Excellence, one of the Best in American Living Awards presented at the National Association of Home Builders' Show in February 2007. Two other recipients of the award were the Delaware Street Project in Indianapolis, Indiana and the Vale Housing Revitalization Project in Schenectady, New York. The annual award competition recognizes superior design created through cooperative public-private efforts that expand homeownership opportunities for underserved American families.

A Far-Reaching Collaboration

Owasco Avenue's new look is the result of a far-reaching collaboration orchestrated by the Northern Fox Valley chapter of Habitat for Humanity. The land was bought with grants from local businesses and community-based organizations. Local college students developed the architectural designs, and an engineering firm donated $30,000 in services to design a sewer extension. Each home had an organizational sponsor who paid for the construction materials. Volunteers (and the homebuyers, through sweat equity) provided the labor for four of the homes. Many volunteers came from churches; others were participating in employer-sponsored Build Days. A fifth home was built by a national homebuilder who donated the labor as well as the materials. A local electricians union donated the electrical work on two of the homes.

In addition to coordinating all of these community interests and efforts, the Northern Fox Valley chapter of Habitat selected and assisted the families who would become the new homeowners, directed the construction, serviced the mortgages, and made sure that sufficient construction funds were raised. Broad community interest was evident in the popular response to fundraising events, such as a black-tie Dream Builder's Soiree.

The five Owasco Avenue houses resemble the traditional bungalow-style homes commonly found in Elgin neighborhoods.

Design Objectives

Architectural students at nearby Judson College designed the homes. A faculty director of the project, David Amundson, reported that the students sought to integrate the historical tradition of residential architecture in Elgin — in particular, Sears Craftsman bungalow-style homes — with features of modern homes. Each three-bedroom home has a unique appearance and exterior, and averages approximately 1,400 to 1,500 square feet. The floorplan provides a clear sightline from the kitchen into both the backyard and the street in front, allowing parents to monitor children playing outside. One bedroom is on the first floor next to a full bath; laundry facilities are on the second floor. One of the homes is designed to meet special accessibility needs.

The student designers kept the architectural elements simple and volunteer friendly; for example, altering the pitch of the roof to make it safer to stand and walk on, and incorporating readily available, easily worked construction materials. At the same time, the designers chose durable, economical materials, such as vinyl siding and flooring, asphalt shingles, and laminate countertops.

Security for Homebuyers and an Asset for the Community

The new owners of these homes had to demonstrate need, such as being rent-burdened or living in over-crowded or unsafe conditions. They also had to agree to contribute up to 500 hours of sweat equity and be able to make the mortgage payments on a purchase

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1. Gerard Dziuba, "Seven Houses in a Year Is, Well, Some Sweat for Habitat Chapter." *Chicago Daily Herald*, 8 April 2005, p. F2.

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A particular subset of borrowers builds simple housing with micro-finance loans that are paid back with rent derived from the units.

Another financial intermediary consists of community savings groups, community banks, and cooperatives organized by area residents, frequently women, to gain greater access to credit. These groups have the potential to initiate complex development projects involving land acquisition, service provision, and housing delivery. As a result, they're able to facilitate working relationships between individual cooperative members and the formal banking sector.

Government Regulatory Frameworks and Incentives

As the number of financial intermediaries grows, the need arises for a policy and regulatory framework to enforce standards and to establish appropriate institutional arrangements.

Participating West African governments are taking important steps to support the banking sector and intermediary organizations in their efforts to provide housing finance based on terms that are accessible to low-income households. These governments are developing regulatory frameworks, introducing legislation, and laying the institutional groundwork to form a new enabling role for government. However, the support function of state institutions in housing finance is far from complete, and much remains to be done.

One area of support under consideration by these West African governments is the provision of long-term capital for primary mortgage lenders. Banks are hard pressed to incur the exposure of 20-year mortgages when their primary source of capital is less than 5-year deposits, so governments are contemplating ways of helping banks issue housing bonds. These debt instruments would be purchased by institutional and private investors in the domestic capital markets. The government would support the process by providing a partial guarantee for the bond and regulating the issuance and application of the debt instrument.

Also under consideration is a comprehensive regulatory framework for asset-backed securities, the regulation of nonfinancial institutions, ways of supporting

Secretary Jackson tours the Ashaiman Tulaku community outside Accra, Ghana.

financial intermediaries that help low-income households build and improve housing, and reforms that would allow institutional investors to draw upon long-term capital available from insurance companies and pension funds.

Credit ratings and assessments (personal, sovereign, and sub-sovereign) constitute yet another area that needs government support. A common feature in North American and European banking is an individual credit rating. Private companies that keep records on an individual's assets, debt, and debt repayment capacity do not exist in most West African countries. Further, most governments and local authorities in West Africa are not, themselves, rated in terms of their assets, liabilities, and debt repayment capacity; those that are often have a poor rating. Companies, such as Standard & Poor's, are only just beginning to provide sovereign and sub-sovereign credit ratings in Sub-Saharan Africa.

The topic of "government enablement of private-sector lending for affordable housing" is admittedly large and complex. There are a number of important elements and aspects that cannot adequately be discussed in the confines of a three-day peer exchange, and much work remains to be done. More international exchanges, like the one held with West African countries, could expedite the progress being made in the global housing sector.

Income Limits Touch Millions of American Families

Housing programs have had income limits for eligibility since the federal government established public housing in the 1930s. Income limits ensure that those who are most in need of it receive housing assistance. Both income limits and the median family incomes on which they are based are calculated and updated annually for each metropolitan area and nonmetropolitan county in the U.S. Over the years, a wide array of income-targeted federal programs have come to incorporate, through statute or regulation, HUD's median income or income limit estimates as a basis for establishing eligibility and other standards. To help the many members of the public affected by HUD's median income and income limit estimates better understand how we arrive at these figures, HUD now offers a comprehensive web-based system detailing all of the calculations behind the median family income estimates and the associated income limits. This Income Limits Documentation System can be accessed at **www.huduser.org/datasets/il/il2007_docsys.html**.

How Income Limits are Determined

The process begins by estimating the median family income for each area. These estimates are based on income distributions reported in the most recent decennial census (2000), and use more recent data drawn from the American Communities Survey (ACS) and the Bureau of Labor Statistics to estimate state- and county-level changes since the last census. For the first time, the income estimates also reflect results from the initial full ACS conducted in 2005 and the local area data released from that survey. For Fiscal Year (FY) 2007, the estimated median family income for the U.S. is $59,000.

The U.S. Housing Act of 1937, as amended, is the statutory basis for income limits. Its policies can be summarized as follows:

- Low-income families are defined as families whose incomes do not exceed 80 percent of the median family income for the area.
- Very low-income families are defined as families whose incomes do not exceed 50 percent of the median family income for the area.
- The 1998 Act amendments establish a 30-percent-of-median-family-income program targeting standard, which is often referred to as the "extremely low-income" standard.

In addition, the following annual adjustments are made:

- Income limits are adjusted for family size;
- Income limits are adjusted for areas with unusually high or low family income, or housing-cost-to-income relationships;
- Income limits are held at the previous year's levels for areas where they would otherwise be decreased; and
- Income limits for non-metropolitan areas may not be less than limits based on the state non-metropolitan median family income level.

Who Uses Income Limits?

HUD median income estimates and income limits, or derivatives thereof, apply to a wide array of programs both within HUD and throughout the federal government. Within HUD, median incomes or income limits serve as parameters in 11 different housing assistance and community development programs. The federal Tax Code includes five provisions having to do with Low-Income Housing Tax Credits and state-issued tax-exempt bonds that reference HUD median income estimates. The Departments of Agriculture and Veterans' Affairs use HUD income limits to set program income eligibility standards. Fannie Mae and Freddie Mac affordable lending goals are defined in terms of HUD median income estimates, as are rules for Community Reinvestment Act compliance and the Federal Housing Finance Board's affordable housing lending programs. Clearly, the HUD median income estimates and income limits are among the most important numbers produced by a federal agency.

Frequently Asked Questions

HUD USER's Call Center receives a large volume of questions each year from consumers of income limits, such as local and state governments, financial institutions, public housing authorities, community-based organizations, and individuals. The following questions are typical of the inquiries received, and are answered below for Research*Works* readers with questions about the FY2007 income limits:

Q: How are this year's income limits different than previous years' income limits?

A: There was a change in methodology for the FY2007 Income Limits. This year's estimates are based on the

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price of $130,000 to $140,000. These families had incomes at 30 to 60 percent of the area's median income. In keeping with the Habitat for Humanity mission, the homes were financed with no-interest loans, and mortgage payments amount to no more than 30 percent of a buyer's annual income. These new homeowners also moved into their homes with the benefit of homeownership mentoring and strong personal ties to neighbors, having built their homes together.

The Block Build Project has addressed the housing needs of families and given a boost to the appearance and value of homes in the neighborhood, in keeping with city and county plans that call for high-quality housing choices for all income levels. To further the cause, the mortgage payments for these homes will be pooled and reinvested in the construction of additional affordable homes in the area.

To obtain additional information about the Block Build Project, contact Barbara Beckman, Executive Director of the Habitat for Humanity of Northern Fox Valley, at 847.836.1432. Information about the HUD Secretary's Award program is available at **www.huduser.org/research/secaward.html**.

Income Limits Touch Millions of American Families *continued from page 6*

first full American Community Survey (ACS) sample sizes surveyed in 2005 by the U.S. Bureau of the Census. While HUD's FY2007 median family income estimates are still updates of the 2000 Census data, the 2007 HUD update factors differ from FY2006 update factors in two very important ways:

- FY2007 estimates are based on local area ACS 2005 surveys for places of 65,000 or more, where such surveys have been published; and
- Estimates for all other areas now reflect the state-level change between the 2000 Census state and 2005 ACS state estimates, rather than being based on applying ACS changes (e.g., 2000–04 for FY2006 estimates) to 2000 Census estimates.

Q: Can FY2007 Median Family Incomes (MFIs) be compared with estimates for previous years?

A: They should not be directly compared with previous years as an indicator of annual income change, due to the change in methodology. For more information, please review the Transmittal Notice at **www.huduser.org/datasets/il/il07/Medians2007.pdf**.

Q: Why don't the numbers in the low- and very-low-income tables always correspond to the area's median family income?

A: There are many exceptions to the arithmetic calculation of income limits. These include adjustments for high housing cost relative to income, the application of state nonmetropolitan income limits in low-income areas, and national maximums in high-income areas. To understand how an area's income limits are determined, please review the Income Limits Documentation System at **www.huduser.org/datasets/il/il2007_docsys.html**. The exceptions are also detailed in the *FY2007 Income Limits Briefing Material* report located at **www.huduser.org/datasets/il/il07/index.html**.

Q: How can I find the income limits for a particular nonmetropolitan or metropolitan area?

A: The FY2007 income estimates and income limits are available as a free download from HUD USER at **www.huduser.org/datasets/il/il07/index.html**. You will also find a link to a new documentation system that explains each income limit and area median income estimate, as well as links to the current Income Limit Area Definitions and other information at this location.

Q: What happens if, because of the change in methodologies, the MFI is lower than last year's?

A: Although HUD revised its median family income estimates to use the new ACS data, we are continuing our hold-harmless policy with respect to income limits. That is, HUD will continue to set income limits at the higher of normal income limit calculations or at the previous year's income limits.

Additional questions are welcome and can be directed to HUD USER by calling 800.245.2691, option 1. The complete list of programs with eligibility limits is located in *FY 2007 Income Limits Briefing Materials*, available at **www.huduser.org/datasets/il/il07/index.html**, where a list of the recently released income limits can also be downloaded.

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In the Next Issue of... researchworks

- HUD has submitted our first *Annual Homeless Assessment Report to Congress*. This study establishes important baseline data on homelessness that will lead to a better understanding of the number of Americans who are homeless and how their needs might be met. We'll examine what researchers have learned about obtaining accurate data to improve the picture of homelessness at local and national levels.
- Each year, the National Trust for Historic Preservation presents the National Trust/HUD Secretary's Award for Excellence in Historic Preservation. The 2006 winner, the Ryan Companies, was recognized for renovation of an historic Sears Roebuck store in Minneapolis. This article highlights the building's various mixed uses and examines the five HUD programs that helped make the renovation possible.
- In *Ideas That Work*, HUD's Office of University Partnerships shares a variety of experiences and the successes of grantees who have undertaken initiatives to promote homeownership in their communities. In this article, we'll review approaches and a varied sample of the activities through which these institutions of higher education are helping to strengthen homeownership.
- The Affordable Housing Design Advisor website brings together experience, ideas, developers, and design professionals from successful affordable housing projects across the country. We'll provide an overview of the Affordable Housing Design Advisor's features, including an idea bank, a step-by-step guide to design in affordable housing, and several Design Updates that illustrate how good design is making a difference in the development of affordable housing in the United States.

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