Date: June 22, 2021

To: Senators and Representatives

From: Sandra Pearson, President and CEO of Habitat for Humanity of Michigan

**Re: Funding Affordable Homeownership, State Recovery Funds, ARPA**

Habitat for Humanity and other affordable homeownership / housing developers believe that our communities become stronger and more vibrant as we unite to meet our neighbors’ basic needs for a safe, healthy, affordable place to call home. Especially currently when a stable home is crucial to our health and safety, we are asking the Governor and Michigan legislators to support policies and programs that help strengthen household resiliency through quality, affordable home ownership. The proposals in this document help keep people in their homes, improve the quality of housing stock, and increase the supply of affordable homes. Plus, there are additional benefits to the people living in the house (health, education, jobs, stability) and all the benefits for the communities (people invested in a community strengthen the community and help stabilize employers and schools). Habitat for Humanity affiliates are developers, and we partner with nonprofits, private developers, and contractors. When affordable housing development activities are funded, jobs and job training result.

We have before us an opportunity to fund activities across the entire housing spectrum and address the current housing shortage, escalating cost of building materials, and escalating appraisals that will leave generations out of home ownership. Michigan’s nonprofit housing developers are advocating that the full spectrum of housing be included in all housing strategies. Owning homes, keeping people in their homes, and adding to supply must be recognized for their long-term benefits to jobs, communities, and lives. We must also change the narrative of homeownership among people who are black and brown when compared to people who are white. Sixty percent of Michigan’s black population are ALICE qualified – Asset Limited Income Constrained Employed – households. Many would make very good homeowners with support of affordable homeownership programs. As Jeff Noel of Whirlpool and interim director of MEDC recently stated in a Whirlpool/Habitat for Humanity partnership video (paraphrase), *‘There is something magical about passing love to a family when we join on a house build. It makes us all better! House + Home is central to society.’*

**Why fund Habitat for Humanity of Michigan?**

Habitat for Humanity of Michigan (HFHM) is a social enterprise organization incorporated as a nonprofit 501 (c) 3 in 1993. HFHM business lines include Real Estate Development, Preservation, and Improvement; Lending Services; HUD approved Housing Counseling and Financial Education; and a Habitat Affiliate Collaboratives Program. Our mission statement reads: *Seeking to put God's love into action, Habitat for Humanity brings people together to build homes, communities, and hope*.

Habitat Michigan seeks to serve as a single source fiduciary to administer funding in support of our 48 Habitat affiliates and other small housing developers across Michigan in their efforts to increase the supply of affordable housing and improve existing housing stock. We are experienced and proven in delivering the desired outcomes. Habitat Michigan has the process, systems, partners, and capacity backed by a proven track record. The way the program is delivered is through partnerships with affordable housing developers including Habitat affiliates who are licensed builders.

Habitat Michigan is an experienced lender and grant administrator. Habitat Affiliates, private developers, and other nonprofit developers access the grant and loan programs through our existing processes and eligibility criteria which include:

* The house and property must be owned and occupied by the income-qualified family.
* The household total annual income must be less than 80% of the Area Median Income (AMI).
* The household has limited access to other means for completing the needed repairs.
* The household applicants who buy Habitat homes must be deemed ready to do so by a HUD-certified counselor (Habitat Michigan has four on staff) and be approved for an affordable mortgage.

Now is the time to be bold and innovative to achieve the impacts we have all talked about for decades that have resulted in no real change. Let us be the change! Empower Habitat for Humanity and our vast, statewide network. Habitat for Humanity of Michigan is an organization built to accept a large infusion of money and deliver the intended results. We have built a strong organization for a moment such as this.

Habitat for Humanity of Michigan proposes that $145,000,000 of funding for the American Rescue Plan Act of 2021 be appropriated for the following five housing-related purposes. HFHM proposes to administer $45,000,000 of these funds in the first four areas including home repairs, housing production and down payment assistance. Further, we propose that the Michigan State Housing Development Authority (MSHDA) administer $100,000,000, or more, that enables economic recovery across Michigan. The proposed breakdown of funding follows:

1. $5 million for critical home repairs to address health and safety in housing, and lower utility bills, administered by HFHM.
2. $25 million for an Affordable Housing Capital Revolving Loan Fund, administered by HFHM.
3. $5 million revolving loan fund for Land Bank Redevelopment and Tax Increment Financing (TIF), administered by HFHM.
4. $10 million Down Payment Assistance (DPA) funding for consumers whose income is below 80% of the area median income, administered by HFHM.
5. $100+ million for MSHDA’s MI Housing and Community Development Fund administered by MSHDA.

From Michigan cities to the suburbs and even in rural areas we bear witness to housing problems and inequities. These extend from disrepair to dilapidated housing, lack of access or opportunity, and unrelenting demand for affordable homeownership. Many of these problems can be addressed with ARPA funds. The five explanations for the suggested funding allocations will impact thousands of lives:

1. Michigan’s existing housing stock is aging and needs repair dollars to keep people in homes. There has never been a time more evident than now that housing is a determinant of health. **The $5 million funding will provide healthier living environments for 500 low-income households** and will enable better health, accessibility and safety for seniors aging in place, people with disabilities, and military veterans who are among these low-income homeowners. Existing funds that focus only on weatherization or energy reduction rebate dollars are important secondary steps, but what is needed first are critical health, accessibility, and safety upgrades.

HFHM’s *Priority Home Repair Program* serves low-income owner-occupied households (up to 80% AMI, MSHDA funding is limited to 60% AMI) by resolving critical safety and health threats in their homes. It begins with a comprehensive assessment of the occupants’ well-being along with an exterior inspection and virtual interior assessment of the home’s structure, equipment, and components. The resulting list of essential repairs and upgrades are then prioritized in an order of importance and urgency based on potential risks or threats to the safety and health of the occupants. Funding is used to directly pay for repair expenses along with related added costs associated with working safely including:

* Upfront capital for nonprofits to secure contractors and begin project.
* Personal Protective Equipment (PPE) required to ensure staff, volunteer, and occupant safety.
* Direct costs of contractor or construction team on project.
* Reasonable overhead and administrative costs.

1. Michigan is in an affordable housing crisis. As home prices rise and a tight inventory continues in Michigan, it is more difficult for low-income consumers and first-time homebuyers to reach their homeownership goal. The Urban Institute’s Housing Finance Policy Center indicates three significant barriers to homeownership: saving for a down payment, credit worthiness and housing affordability. The Habitat affiliates and other housing developers are capable of increasing production to do affordable housing statewide. Habitats and other affordable housing developers need capital for developing affordable housing and commits to serve the lowest income home buyers with a variety of financing options. **The $25 million allocation to a housing capital revolving fund will enable the initial production of approximately 160 units of affordable housing** for consumers who are 80% of area median income (AMI) and below. **Borrowed funds will be returned to the revolving fund when the home sells, allowing affordable home production to continue indefinitely.**
2. **A second $5 million revolving loan fund** will allow local and state land bank properties to be redeveloped for affordable housing – tax credit financing (TIF) can help further bring down housing costs for the “missing middle” moderate-income buyers with housing at an affordable level for 80% – 120% AMI and low to moderate income buyers, also known as ALICE population of 30%-80% AMI. Developers, Land Banks, and Habitat for Humanity Affiliate Developers are turning to HFHM to develop a revolving loan pool needed for Land Bank Redevelopment, including TIF to help fill the gap. A one-time infusion of funding to establish a **long-term loan of up to 30 years on an average of $50,000 TIF per home developed** will unleash Land Bank development in communities across the state and will **transform the lives of 100 new homeowners who purchase through this financing.**
3. A **$10 million down payment assistance (DPA) repayable loan fund** is needed to fill the appraisal gap for affordability or the subsidy gap between the cost to build versus an affordable mortgage. The down payment assistance gap grants are secured with a repayable lien upon transfer of ownership **and liens may be forgiven after a period of affordability**, depending on the amount of down payment assistance. Markets across the state vary, with the average amount of down payment assistance needed for a family between 40-80% AMI ranging from $10,000 to $100,000. $10 million would result in **330 affordable homes** purchased at the rate of approximately $30,000 per homebuyer. The DPA loan fund will continue to operate and provide DPA funds to subsequent households following repayment upon sale or property transfer when sold during the lien period.
4. **Michigan needs a larger and more stable funding source to continue funding projects that strengthen our neighborhoods and communities.** The Michigan Housing and Community Development Fund was legislated in 2008 and is administered by MSHDA. The funding has been limited to $2M in 2008 and $3M in 2012 and leveraged eleven times that amount. By providing funding in Michigan for MSHDA’s program we will create jobs, affordable housing, thriving communities and wealth building programs for people who have been left behind and intentionally excluded for too long. Nonprofit developers would like to see MSHDA operate the funding with an advisory board to oversee and advise the fund administration:

**$100M Grant fund**

* Available to nonprofit 501c3 organizations with a history of building/operating non-tax credit housing.
* Multiple grant rounds per year.
* Grants become automatic if minimum grant criteria are met.

**Grant Criteria:**

* Home is new construction or involves substantial rehabilitation.
* Maximum subsidy award per home $100,000.
* Gap identified as difference between total project cost and the appraised value of the home.
* Limit amount used for rental development to 25% of fund to renters below 120% AMI and not involving LIHTC.
* Provide a rural set aside of 30%.
* Preference given to
  + LMI Census Tracts as defined in the American Communities Survey
  + Buyers qualified by developer earning no more than 80% of the AMI
  + Subsidize homeownership in high income areas to borrowers below 120% AMI
  + Energy efficiency requirements for all housing

Habitat for Humanity of Michigan has capacity in our current business lines to administer the proposed funding, as is evident by our previous and existing exemplary performance in these areas:

* Lending – Since 2003, HFHM financed and monitored over 2,300 DPA loans, administered revolving loan fund initiatives, owned and operated a mortgage lending company and a consumer loan company. We are certified in loan packaging, and we know compliance and servicing systems and processes.
* Real Estate Development – HFHM focuses on high performance housing that exceeds standards for energy efficiency in new and moderate-rehab construction. Our home repair program focuses on critical needs first to ensure health and safety of occupants. Since 1982, Habitats in Michigan have built or repaired 9,545 homes and positively impacted the lives of 31,125 families.
* Land bank redevelopment TIF: Habitat Michigan’s role as the required 501c3 lender will unleash Land Bank Redevelopment, Tax Increment Financing (TIF) tools and financing in partnership with developers, both private and nonprofit. Habitat for Humanity of Michigan is a skilled and trusted fiduciary, program administrator, lender, and we can leverage the brand. Both Habitat Affiliate Developers and Private developers of affordable home ownership at or below 80% AMI want us to serve this role based on their experience working with us and our reputation.
* Direct Consumer Services paired with Housing Counseling – HFHM provides HUD approved, exemplary rated financial education, coaching, pre- and post-purchase counseling, rental counseling, and foreclosure prevention services that meet the needs of consumers statewide. In collaboration with other Michigan HUD approved agencies, we will provide the counseling, education, and support services these programs require to help consumers realize their housing and financial goals.

We have built an organization of excellence, serve as a sound fiduciary, and excel at program delivery across the state. Habitat Michigan partners with our 48 local affiliates and may serve the broader community with direct client services and in partnership with private developers and organizations. Habitat affiliates are housing developers and promote a standard of excellence in affordable housing that is unmatched.

The motivation for this proposal comes from our read of the [U.S. Treasury fact sheet](https://home.treasury.gov/system/files/136/SLFRP-Fact-Sheet-FINAL1-508A.pdf), which contains context that supports Habitat uses of these funds.

* Bullet point #3 on page 5: **Serving the hardest-hit communities and families** which includes “Investments in housing and neighborhoods.”
* Habitat is experienced in land acquisition, site improvements, infrastructure, SDC waivers, staffing and contractors and offsetting construction costs.
* Habitat’s focus is affordable housing. We are developers and with an infusion of funding we are a significant force for affordable housing in Michigan.

We believe that financial support for these programs to be administered by HFHM will complement the work done by Community Action Agencies, MSHDA, the Department of Health and Human Services, other government agencies, affordable housing developers, land banks, the Department of Veterans Affairs, 50 Habitat affiliate offices statewide and other nonprofit weatherization and home repair programs. Our organization intends to coordinate with these agencies and others who believe as we do, in the statements provided by Mike Loftin in his publication "Homeownership is Affordable Housing”. He articulates what those of us in the business of homeownership already know:

***“Faced with a shortage of affordable housing, policymakers are failing to take advantage of America’s biggest source of affordable housing: homeownership. Contrary to popular belief, owning one’s own home is frequently more affordable than renting. Nevertheless, many people cling to the idea that homeownership is reserved for people who achieve some arbitrary level of financial success and that it is not “appropriate” for people who are still on their path to financial security. This may help explain why most federal, state, and local efforts to create more affordable housing focus on the rental market. But the data prove this thinking incorrect.***

To read on, go to: <https://www.urban.org/research/publication/homeownership-affordable-housing>.

**Would you like to learn more about these priorities and consider being a champion? If so, contact your local affiliate, or Sandy Pearson at** [**spearson@habitatmichigan.org**](mailto:spearson@habitatmichigan.org)**,** or 517-526-3534.