Public funding levels for new affordable housing construction remains highly inadequate, and the complexity of existing public programs, and the requirements they impose, add unnecessary costs to new development. As the 2015 Meyer Cost Efficiencies report concluded, "Any strategies to deliver significant cost reductions probably also require a departure in the way projects are funded," and "dramatic reductions are probably unattainable without new, more flexible sources of funding."[10]

Do to these constraints, we intentionally avoided public funding sources with our initial projects. The overwhelming bulk of capital funding instead came in the form of charitable contributions—private donations, in-kind contributions, and foundation grants. While this provided flexibility in developing cost-effective housing without restrictive strings attached, relying entirely on fundraising proved to have its own challenges by adding significant time and uncertainty to the project timeline. And as we learned with our Cottage Village project, this strategy is especially limiting in rural communities with fewer resources to draw upon. On the other hand, debt financing a project without adequate subsidies leads to higher rents that are unaffordable to people with low-incomes

As we look forward, we recognize the need to move towards a more scalable financing strategy that includes a more sustainable mix of 1) resident equity, 2) public subsidies, 3) debt financing, and 4) charitable contributions.

By diversifying our funding sources while keeping expenses low through a combination of affordability strategies, we believe our Village Model is uniquely positioned to maximize the social return on investment when compared to other forms of low-income housing. If debt can be kept at sustainable levels through one-time capital subsidies, housing co-ops enable low-income residents to cover the cost to operate their housing without dependence on ongoing operating subsidies. Furthermore, the CLT-LEC ownership structure ensures that the housing developed will be retained at affordable rates in perpetuity, helping family after family access shared-equity homeownership. **With the ability to operate at cost while also ensuring permanent affordability, the Village Model is an ideal vehicle for investments in affordable housing.**

Expense	Affordability Strategy	Proposed Funding Sources
Land	**Community Land Trust**	• Public Subsidies / Land Banking • Anchor Institutions (churches; hospitals; universities) • Private Donors
Construction	**Tiny House & Cottage Clusters**	• Resident Equity (Membership Share Purchases) • Public Subsidies • Construction Loan / Mortgage • Fundraising
Operations	**Cooperative Housing**	• Resident Payments (Monthly Carrying Charges)

Resident Equity

Housing co-ops can include a funding source excluded from low-income rental housing: resident equity. When a household joins a co-op, they must typically make an up-front purchase of a share in the co-op. This represents their investment in their housing, and grants them occupancy rights to a unit in the co-op as well as a vote in the governance of the corporation.

In a *limited-equity* co-op (LEC), shares appreciate in value according to a formula outlined in the co-op's bylaws. While this means that co-op owner-members may not realize as great of a financial return on their investment when compared to a conventional homeowner or a market-rate co-op, such restrictions on share appreciation are an important mechanism for preserving affordability and community stability.

When a co-op is being developed as new construction, share purchases also serve as an important source of the equity to help finance the project, similar to a downpayment in traditional homeownership. The challenges with this approach are 1) the household incomes that we are targeting may have difficulty saving enough for an upfront share purchase, and 2) sources for share loans may be severely limited in areas where lenders are not familiar with co-op housing.

One way to address these challenges is through the creation of a Revolving Loan Fund to assist low-income households with a low-interest loan with which they can purchase a share in a housing co-op. For example, Lopez Community Land Trust (introduced in the ownership structure section) operates a Revolving Loan Fund to provide financing for share purchases in the co-ops they develop. Loan terms are 5-20 years at 1-5% interest.

Revolving Loan Fund

A Revolving Loan Fund (RLF) is a self-replenishing pool of capital. As borrowers repay their loan, the principal and interest earned are reinvested in the fund in order to make new loans. Over time, the RLF grows. By creating a fund dedicated to financing the purchase of shares in a housing co-op, this form of shared-equity housing can be made more accessible to households for whom other sources of financing are limited.

Share loans made would be repaid on terms and at interest rates that are affordable to low-income households. As share loans are repaid, the principal and interest earned are reinvested in the RLF's capital base for new loans. While revenue from the initial sale of shares serves as the equity used to develop a project, the ongoing availability of flexible financing for share purchases ensures the co-op remains accessible to future low-income households when a retiring member decides to sell their share and occupancy rights.

As the RLF grows as more co-ops are developed, the fund could also be used for other purposes, such as land acquisition or construction loans to support the development of even more housing co-ops.

Public Subsidies

Due to the funding gap between costs and revenue, public subsidies are integral to developing affordable housing at scale. But most existing public programs impose requirements that present significant challenges to the development of innovative and cost-effective housing. Some of the primary barriers include:

1. Application and reporting requirements demand significant administrative costs, which is an especially significant barrier to smaller non-profit organizations

2. Some funding sources require or prioritize specific ownership structures, which are not compatible with a shared-equity ownership structure.

3. Some funding sources require projects to be built with labor compensated with Davis-Bacon prevailing level wages. While we support the intent behind prevailing wage requirements, it would make it impractical for nonprofits acting as their own contractor to involve volunteers, interns, and residents in the tiny house construction process, which we see as one of the primary advantages of this physical form.

Federal Funding

The primary source of outside equity for new affordable housing developments today—**Low-Income Housing Tax Credits (LIHTCs)** administered by the Department of Housing & Urban Development (HUD)—is highly competitive, time-consuming, and costly. Developers may spend up to $40,000 just to craft the application and only see a portion of their desired projects funded, and it is not uncommon to have to apply multiple times for the same project.[11] This is a significant barrier for smaller non-profit organizations. Furthermore, because it is geared toward conventional rental housing, the LIHTC program is incompatible with the forms of shared-equity housing that can preserve affordability in the long-term.

The other major HUD program for funding new affordable housing construction is the **HOME Investment Partnerships Program**. Projects with 12 or more units assisted with HOME funds are required to be built with labor compensated with Davis-Bacon prevailing wage rates, regardless of whether funds are used for construction or non-construction purposes. HOME does provide for a sweat equity program (see NAHA Section 255) which permits members of an eligible family to provide labor in exchange for acquisition of property for homeownership or to provide labor in lieu of, or as a supplement to, rent payments. Davis-Bacon prevailing wage rates do not apply for sweat equity participants.

Community Development Block Grants (CDBG) is another HUD program that can support affordable housing. Although new housing construction cannot be funded through CDBGs, it can fund land acquisition, soft costs, infrastructure improvements, or construction of a common facility. Davis-Bacon prevailing wage rates only apply if CDBG funds are used for construction. However, CDBG funds are administered at the local level, so the availability of using funds for this purpose will vary by municipality.

A fourth and lesser known HUD program is the **Self-Help Homeownership Opportunity Program (SHOP)**, where future homeowners work in partnership with a non-profit developer and volunteers to build housing. Funds can be used for site acquisition or on-site development. This program is tailored for projects utilizing significant volunteer and sweat equity contributions, as it requires members of the household to contribute a minimum of 100 hours of sweat equity, and the involvement of community participation. The constraint here is that funding currently only goes to a handful of large non-profits, such as Habitat for Humanity. To access funds and applicants must be a national or regional organization located in at least two states.

State & Municipal Funding

To successfully scale our Village Model there is a critical need for new, more flexible sources of public subsidies. While federal funding sources administered by the HUD remain quite restrictive, there does appear to be progress at the state and municipal levels of government in this regard.

Oregon's **Local Innovation and Fast Track Housing (LIFT)** offers one such opportunity. It offers both a rental and a homeownership program, the latter of which is compatible with the CLT-LEC ownership structure (and the former is compatible with a leasehold co-op). LIFT can fund either the value of the land plus improvements (excluding housing structures) or $75,000 per LIFT homeownership unit.

Funding sources administered by a City or County may have the best ability to provide flexible programs to support innovative and cost-effective approaches in the short-term. Eugene's new **Affordable Housing Trust Fund (AHTF)** offers a promising step in this direction. To help address the reduction in traditional funding resources available for affordable housing, Eugene City Council passed an ordinance in April 2019 implementing a construction excise tax as an initial source of income for the AHTF. General funds will also supplement the AHTF, and we are hopeful that additional programs will be added in the future.

Municipalities also have the ability to reduce development costs by waiving fees and taxes. The City of Eugene administers a **System Development Charge (SDC) Exemption** program, where housing for people with low-incomes are eligible for an exemption from paying local SDCs, which can provide a significant subsidy to construction costs. The income limit for rental development is 60% AMI, and for homeownership development it is 80% AMI. The **Low-income Rental Housing Property Tax Exemption (LIRHPTE)** is another example, providing a 20 year exemption for rental properties owned by 501c(3) non-profits serving residents at 60% AMI or under. We have utilized this program for our Emerald Village project, which is a lease hold co-op, and we are in conversations with the City to see if limited-equity co-ops can also qualify. Due to the non-speculative nature of this housing type, it seems reasonable for LECs to receive an exemption or reduction in property taxes.

Prioritizing Shared-Equity Ownership Models

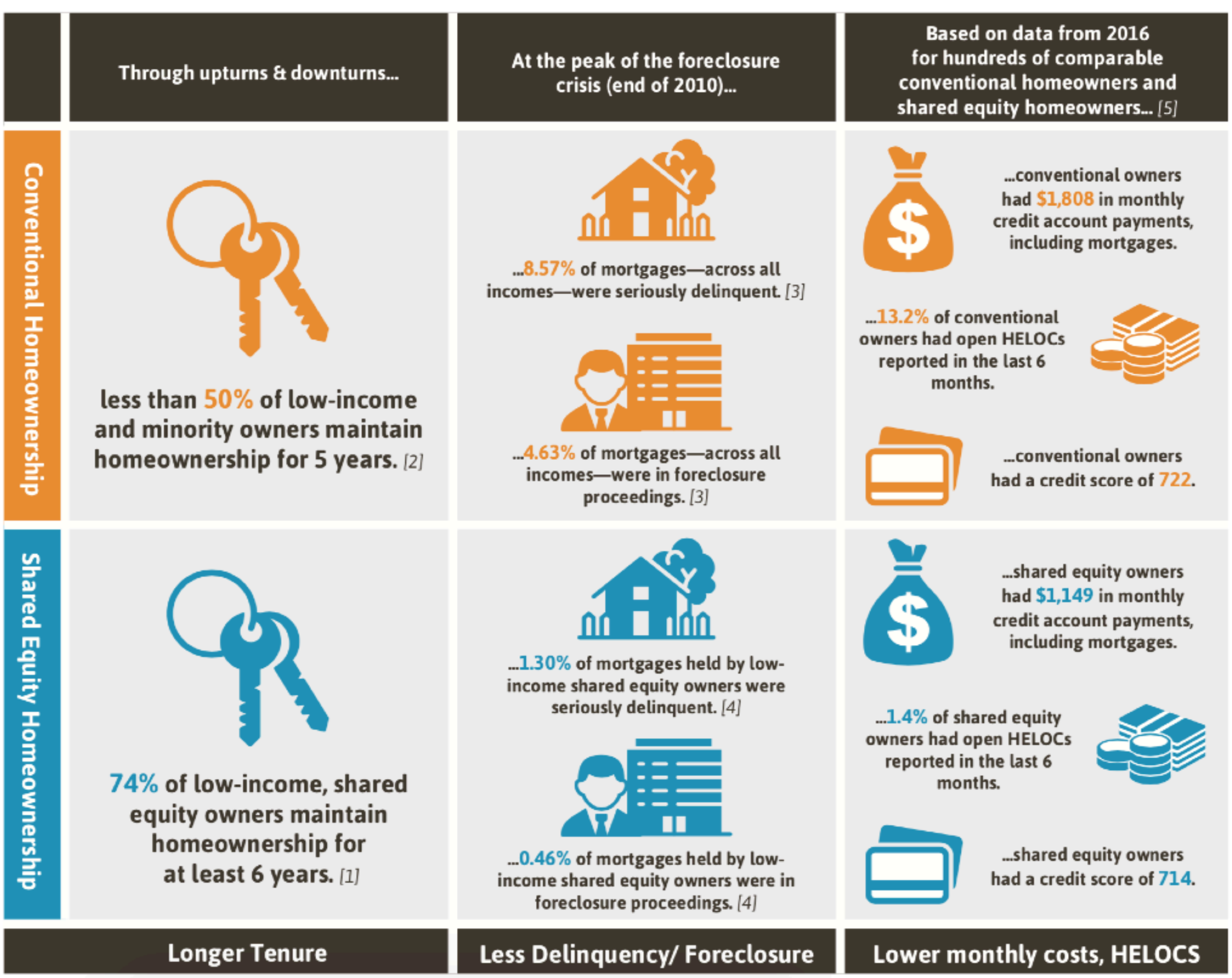
In looking to make public funding programs more compatible with our model, one effective solution would be to begin prioritizing shared-equity ownership models with long-term affordability controls, such as CLTs and LECs, when awarding public funds. This simple adjustment would ensure that housing providers are creating as much access as possible to affordable housing with the limited supply of existing subsidies available.

Debt Financing

While debt financing wants to be minimized in order to reduce carrying charge rates paid by low-income residents, the ability to incorporate some degree of debt financing is critical to developing new affordable housing at scale, considering the inadequate supply of public subsidies. **This also represents one of the primary barriers to overcome in seeking to expand the implementation of a CLT-LEC hybrid ownership structure.**

Shared-equity housing currently faces challenges in getting permanent financing because lenders, particularly on the West Coast, are unfamiliar with the structure and typically cannot securitize the loans. While underwriting for traditional CLT's has recently become more accepted in the secondary market with Fannie Mae now offering CLT specific guidelines, there is currently no standard conforming mortgage for a CLT-LEC ownership structure.

Grounded Solutions Network, an organization that provides resources for advancing shared-equity homeownership, has played a pivotal role in making lenders more comfortable with lending to CLTs by highlighting the advantages of mortgage lending to buyers of shared-equity homes. A two-sided handout they developed summarizes the advantages, "The program [CLT] has a vested interest in the success of the homeowner and the upkeep of the home, which benefits the first mortgage lender. Whether a lender offers a portfolio mortgage product or sells the loans on the secondary market, the lending institution is participating in a low-risk investment that advances Community Reinvestment Act goals."[12] Their infographic shown below also summarizes the advantages of shared-equity ownership:



Grounded Solutions Network also offers other resources on their website describing the benefits of CLT-LEC hybrid ownership. While Fannie Mae does not offer a specific program for this ownership structure at this time, it does seem reasonable for the secondary market to also become more accepting of this structure as more projects are implemented. However, educating local banks and credit unions on the benefits of holding non-conforming loans in their portfolio to support these projects seems to be the most viable option in the short-term.

Lopez Community Land Trust offers an existing example that has succeeded in working with local lenders to provide permanent mortgage loans on their non-conforming portfolios. The loans they have for their LEC projects range from 6% with 30-year fixed rate to 5% with 30-year fixed rate. The local bank offering these loans, Islanders Bank, was recently acquired by Banner Bank, so we are hopeful that their positive experience may help other branches of Banner Bank consider making similar loans throughout its regional network in the Northwest.

Other housing co-ops have also succeeded in securing financing by working with Community Development Financial Institutions (CDFIs) with a mission specific to advancing cooperative housing. Shared Capital Cooperative offers one such example. They are a national CDFI loan fund that "connects co-ops and capital to build economic democracy. Working with capital invested by the cooperative sector and its allies, we provide financing for the expansion and startup of cooperatively-owned businesses and housing throughout the United States."

Shared Capital Cooperative has offered a loan to help sustain an existing housing co-op in Eugene, the Walnut Street Co-op. When Walnut Street first tried to convert a 9-bedroom house into co-op ownership in 2000, they were unable to find a bank willing to offer a mortgage. As an alternative, they implemented a compelling model for setting up a 5-year revolving loan fund with social investors making loans at various rates of interest between 0-6%, described in detail on their website (http://walnutstreetco-op.org/revloan). This offers an unconventional alternative if a group is unable to find more traditional sources of lending, but the project appeals to socially-minded lenders. And due to the additional affordability benefits of a CLT-LEC, it seems reasonable that social investors with the capacity to offer below market interest rates would be attracted to this kind of initiative.

Because co-op housing does not require the kinds of deep and ongoing subsidies typical of low-income rental housing programs, patient capital—financial investment without expectation of turning a quick profit—can be a transformative tool for scaling this model. The entity best equipped to make this kind of large-scale investment is the federal government. In the 1960s-70s, for example, an estimated 60,000 LEC units were created with financing under HUD Section 221 and 236 programs, which provided long-term loans with below market interest rates.[13] Terms ranged from 1-3% interest over 40 years, covering up to 100% of project costs. These loan guarantee programs were estimated to be equivalent to subsidizing approximately 30% of the project, but subsidy costs were instead spread out over the life of the loan. While other types of affordable housing were also built under these programs, co-op housing was found to have the lowest default rate.[14] Many of the limited equity co-ops converted to market rate co-ops after the loan period expired, but a partnership with a CLT could prevent that. In order to see large scale change in affordable housing in the near future, there is a dire need for renewed public investment of this kind.

Operating Costs

While the share purchase represents the upfront cost for membership in a co-op, the carrying charge is the monthly amount each member pays to cover the ongoing costs to operate and maintain the co-op. This includes a proportionate share of the blanket mortgage payments, property taxes, management fees, maintenance costs, insurance premiums, utilities, and contributions to reserve funds. When the co-op is partnered with a CLT, the carrying charge also includes a proportionate share of the ground lease fee.

In essence, residents are collectively acting as their own landlord, allowing them to operate their housing at cost. Members have no reason to substantially increase monthly charges unless taxes or operating costs increase, and therefore monthly charges typically remain reasonable and stable. Furthermore, the bylaws of the co-op and the ground lease with the CLT can require that carrying charges remain affordable to specific income levels.

The major financial advantage here, in comparison to other low-income housing, is that co-op housing is able to remain affordable to low-income households without dependence on ongoing subsidies, if debt can be minimized. The less debt a co-op has to take on in order to finance the housing, the more affordable it can be. This makes co-op housing an ideal candidate for the prudent use of one-time capital subsidies.

Financing Strategy References:

(10) "The Cost of Affordable Housing in Oregon," Meyer Memorial Trust, 2015

(11) "The Cost of Affordable Housing in Oregon," Meyer Memorial Trust, 2015

(12) "Accessing Mortgage Financing Options for Buyers of Shared Equity Homes," Grounded Solutions Network, https://groundedsolutions.org/tools-for-success/resource-library/mortgage-financing-options

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(14) Sazama, "A Brief History of Affordable Housing Cooperatives in the United States," University of Connecticut, 1996