

# Memorandum

**To: City of Newton, Community Preservation Committee**

**cc: Stephen Gartrell, Jennifer Goldson.**

**From: Peter Munkenbeck, consultant**

**Re: CANDO proposal to provide condo units to City employees.**

**Date: February 11, 2003**

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CPC Committee members and staff have provided me with a proposal from CANDO to provide \$300,000 or \$375,000 in CPC funds to reduce the purchase price on three condominiums CANDO has developed in Newton Highlands to enable City employees making 100% or less of median income to purchase them.

I was asked to evaluate the proposal for feasibility, and to suggest how CPC might respond positively to the proposal, taking into consideration the concerns that have been expressed about the proposal in its present form.

Briefly stated, the most important issues to be addressed are as follows:

1. Public funds should not be used to support a price higher than the market value.
  2. The income-restricted purchaser of the property should not assume a financial burden in excess of 33% of income for all carrying costs.
  3. The price for the first buyer should be at a level to that permits the property to remain available to income-restricted buyers in future sales.
  4. The per-unit subsidy should be comparable to other similar commitments in Newton and similar towns.
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1. A fee appraisal conducted a year ago for these condominium units placed the value at \$360,000. Even though the market may have slipped, I suggest a per-unit purchase price ceiling in this case of \$360,000. In future, I recommend that the first mortgage lender's appraisal be the cap on purchase price.
  2. Using underwriting assumptions that are prevalent in calculating affordability for income restricted buyers, and based on Newton's tax rate and the quoted a monthly condo fee of \$95, it is my opinion that fees units would be affordable to below median income buyers at a maximum of \$250,000. Several underwriting models in current use would cap the price at \$230,000. Beyond \$250,000, there is a significant danger that buyers would not be able to deal with any unforeseen challenges. It is also unlikely that they would be successful in obtaining a mortgage, or that they would be obliged to run the substantial risk of a variable rate mortgage.
  3. At this \$250,000 price, it is reasonable to assume that future buyers below median income would be able to replace the first buyer under the normal sharing of proceeds arrangements used for example in Newton's current first-time home buyer program. It should be noted that DHCD's limits are considerably lower than \$250,000 for its various programs including Chapter 40B, LIP and the Affordable Housing Trust Fund administered by MassHousing. It should also be noted that these units will not advance Newton towards reaching the goal of making 10% of its housing stock

affordable to those at or below 80% of median income. If the CPC is willing to exceed the parameters set by DHCD to make more opportunities available in Newton to those between 80% and 100% of median income, it is critical that the price is set low enough to ensure that the units will remain income restricted in perpetuity as set forth in Newton's CPC Plan. If pricing is too high, there will not be subsequent buyers at or below 100% of median income who can afford to purchase these units and also qualify for fixed rate mortgage programs when interest rates are at higher levels. If income-restricted buyers cannot be found and qualified, the deed restriction will expire and the units will become market rate. Currently, Newton provides up to \$95,000 per buyer to help with home purchases for income restricted buyers. Given the scarcity of concrete opportunities in the marketplace, I recommend an increase to fill the gap between the appraisal value and the affordability ceiling of \$110,000 per buyer.

So a positive response to CANDO that is consistent with the most relevant policy and practical considerations would be to provide up to \$110,000 to any qualifying City employee to purchase the 3 CANDO units. I understand that CANDO expects to have these units available for sale in May 2003. I recommend that these funds be reserved for this purpose until September 1, 2003 to allow a six-month window to complete marketing/lottery and close the loans.

I suggest that CPC ask the City to administer these subsidies through the same mechanism the City uses for its existing first-time home buyer program. The City has form documents and staff in place to operate the program, and, in the event that a resale to an income-qualified buyer was not possible, it would be the City that would recapture the funds and make them available to the purchaser of a different property.

I strongly suggest in this interest rate climate that the City require buyers to obtain 30-year fixed-rate mortgages. The underwriting assumptions used in arriving at the \$250,000 price limit permit an interest rate of 6.25%, consistent with a long term fixed rate. The initial short-term sacrifice is sure to be repaid multiple times in the future.

Similarly, I suggest that CPC require participants in this program to obtain the maximum possible second mortgage under the Massachusetts Housing Partnership Fund "Soft Second" Program, and that these funds be used to offset the CPC funds dollar for dollar. I have spoken to the director of this program who believes that it will be available for people in this income bracket in towns like Newton within the next two months. This would cut the per-unit subsidy in half.

I would be happy to answer any questions that committee or staff might have.

## HOUSING INCOME ANALYZER

CHRISTINA STREET W/O PMI

Scheme 1.

Scheme 2

MINIMUM INCOME BASED ON PRICE		MINIMUM INCOME BASED ON PRICE	
Dwelling unit sales price	\$325,000	Dwelling unit sales price	\$300,000
<b>HOMEOWNERSHIP ANNUAL EXPENSES</b>		<b>HOMEOWNERSHIP ANNUAL EXPENSES</b>	
Real estate taxes		Real estate taxes	
Tax rate (\$/\$1,000)	\$10.92	Tax rate (\$/\$1,000)	\$10.92
\$ per year	\$3,549	\$ per year	\$3,276
Hazard insurance		Hazard insurance	
% of value	0.20%	% of value	0.20%
\$ per year	\$650	\$ per year	\$600
Private mortgage insurance		Private mortgage insurance	
% of value	0.00%	% of value	0.00%
\$ per year	\$0	\$ per year	\$0
Annual condo fee (%)		Annual condo fee (%)	
% of value	0.30%	% of value	0.30%
\$ per year	\$975	\$ per year	\$900
Total annual expenses	\$5,174	Total annual expenses	\$4,776
<b>MORTGAGE COSTS</b>		<b>MORTGAGE COSTS</b>	
Mortgage terms:		Mortgage terms:	
Interest rate (%)	5.00%	Interest rate (%)	5.00%
Loan term (years)	30	Loan term (years)	30
Down payment (%)	11.00%	Down payment (%)	11.00%
Points	0.00%	Points	0.00%
Annual principal & interest	\$18,816	Annual principal & interest	\$17,369
Total annual costs	\$23,990	Total annual costs	\$22,145
Housing share of income	35%	Housing share of income	35%
<b>Necessary income</b>	<b>\$68,500</b>	<b>Necessary income</b>	<b>\$63,300</b>

Cell for inputs

Cell for inputs

Christina Street Analysis  
For Josephine McNeil, Executive Director, CANDO

The following scenario is based on a family of 4 making the median income of \$74,200 with no monthly debt, and average credit scores.

Unit Sale Price:		\$ 300,000	
Down Payment:	5%	15,000	
Loan Amount		<u>285,000</u>	
Interest Rate*:		6.500%	
Principle and Interest		1,801	
Taxes		200	
Condo Fee		82	
Mortgage Insurance		<u>231</u>	
Total Housing Payment		<u><u>2,314</u></u>	
Monthly Debt/ Income (max 40%)		37%	
Income (Monthly)		<table border="1"><tr><td>6,183</td></tr></table>	6,183
6,183			

\*Interest Rate May Vary Dependent Upon Credit Scores And Market Activity

Christina Street Analysis  
For Josephine McNeil, Executive Director, CANDO

The following scenario is based on a family of 4 making the median income of \$74,200 with no monthly debt, and average credit scores.

Unit Sale Price:		\$ 325,000	
Down Payment:	5%	16,250	
Loan Amount		<u>308,750</u>	
Interest Rate*:		6.500%	
Principle and Interest		1,952	
Taxes		200	
Condo Fee		82	
Mortgage Insurance		<u>231</u>	
Total Housing Payment		<u><u>2,465</u></u>	
Monthly Debt/ Income (max 40%)		40%	
Income (Monthly)		<table border="1"><tr><td>6,183</td></tr></table>	6,183
6,183			

\*Interest Rate May Vary Dependent Upon Credit Scores And Market Activity

CHRISTINA STREET CONDO PROJECT ANALYSIS

2/19/03

	#	FY02 Basis		FY03 Basis	
		Per unit	Total	Per unit	Total
<b>COSTS: INITIAL PLAN</b>					
Development cost	4	\$341,500	\$1,366,000		\$1,366,000
Broker, marketing, etc.			\$79,438		\$77,600
Loan repayment			\$108,455		\$108,455
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Total costs			\$1,553,893		\$1,552,055
<b>INCOME: INITIAL PLAN</b>					
Market priced units	3	\$446,250	\$1,338,750	\$429,000	\$1,287,000
"Affordable" @ 95% AMI	0	\$287,000	\$0	\$304,000	\$0
"Affordable" @ 80% AMI	1	\$250,000	\$250,000	\$265,000	\$265,000
CPA Grant	0	\$0	\$0	\$0	\$0
---	-----	-----	-----	-----	-----
Total grant & sales			\$1,588,750		\$1,552,000
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<b>BALANCE: INITIAL PLAN</b>			\$34,858		-\$55
<b>COSTS: CPA GRANT PLAN</b>					
Development cost	4	\$341,500	\$1,366,000		\$1,366,000
Broker, lottery, etc.			\$20,000		\$20,000
Loan repayment			\$108,455		\$108,455
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Total costs			\$1,494,455		\$1,494,455
<b>INCOME: CPA GRANT PLAN</b>					
Market priced units	0	\$446,250	\$0	\$429,000	\$0
"Affordable" @ 95% AMI	3	\$287,000	\$861,000	\$304,000	\$912,000
"Affordable" @ 80% AMI	1	\$250,000	\$250,000	\$265,000	\$265,000
CPA Grant	3	\$125,000	\$375,000	\$125,000	\$375,000
---	-----	-----	-----	-----	-----
Total grant & sales			\$1,486,000		\$1,552,000
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<b>BALANCE: CPA GRANT PLAN</b>			-\$67,893		-\$55

All cells contain formulas unless shaded thus.

**UNIT SALES PRICE ANALYSIS COMPARISON**

2/21/03

	First Time Homebuyer August 14, 2002	Christina Street February 20, 2002
<b>3 BR Unit</b>	\$275,000	\$429,000
<b>BREAKDOWN</b>		
Sales Price (w/subsidy)	\$185,000	\$304,000
Downpayment	\$5,550 3%	\$15,200 5%
Mortgage	\$179,450 97%	\$288,800 95%
<b>MONTHLY HOUSING PAYMENT</b>		
Mortgage (principal & interest)	\$1,134 6.5% 30 yrs	\$1,732 6.0% 30 yrs
Taxes	\$216 1.40%	\$277 1.09%
Condo fee	\$0 0.00%	\$94 0.37%
Insurance	\$25 0.16%	\$41 0.16%
<b>TOTAL MONTHLY PAYMENT</b>	\$1,375	\$2,142
<b>MINIMUM INCOME REQUIRED</b>	\$51,600 32%	\$77,100 33.3%
<b>AFFORDABILITY</b>		
	\$74,200	\$77,200
	@80%	@104% FY02
3 person household	\$52,500	\$69,500
4 person household	\$58,300	\$77,200
5 person household	\$63,000	\$83,300
6 person household	\$67,650	\$89,500
	<b>INCOME WINDOW</b>	<b>INCOME WINDOW</b>
	\$900 affordable	-\$7,600 not affordable
	\$6,700 affordable	\$100 affordable
	\$11,400 affordable	\$6,200 affordable
	\$16,050 affordable	\$12,400 affordable
	front end ratio	front end ratio

Newton\CPA\Compare

*Closing costs not include*



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### 30 Year Fixed - Conforming Loan Amounts up to \$322,700

assumptions

Lender/Broker	Phone	Last Updated	Rate	Points	APR	Lock	Closing Costs
<a href="#">ABC Mortgage</a>	(800)321-0592	2/20/2003 7:53:27 PM	5.375	1.750	5.613	30	<u>935</u>

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Lender/Broker	Phone	Last Updated	Rate	Points	APR	Lock	Closing Costs
<a href="#">PREMIERE MORTGAGE SERVICES, INC.</a>	1-800-480-0545 or 978-422-2311	2/20/2003 7:47:26 PM	5.250	2.875	5.640	45	<u>795</u>

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Lender/Broker	Phone	Last Updated	Rate	Points	APR	Lock	Closing Costs
<a href="#">Mackinac Savings Bank</a>	(800)829-9259 x:227	2/20/2003 7:01:31 PM	5.750	0.000	5.787	30	<u>984</u>

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Lender/Broker	Phone	Last Updated	Rate	Points	APR	Lock	Closing Costs
<a href="#">VirtualBank</a>	(877)998-2265	2/20/2003 6:50:45 PM	5.625	0.000	5.707	35	<u>1485</u>

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Lender/Broker	Phone	Last Updated	Rate	Points	APR	Lock	Closing Costs
<a href="#">Home Finance of America</a>	800-358-5626	2/20/2003 6:40:55 PM	5.625	0.000	5.740	45	<u>1795</u>

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Lender/Broker	Phone	Last Updated	Rate	Points	APR	Lock	Closing Costs
<a href="#">MortgageIT.com</a>	800-225-6871	2/20/2003 6:11:39 PM	5.750	0.000	5.783	30	<u>979</u>

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Lender/Broker	Phone	Last Updated	Rate	Points	APR	Lock	Closing Costs
<a href="#">Bay Mortgage Services</a>	800-742-3001	2/20/2003 5:48:52 PM	5.375	2.000	5.671	60	<u>817</u>



# THE HOME FRONT

## Dow Jones Real-Estate Index

### Elite Home Index



Here's the average sale price through January in areas, listed east to west, with high concentrations of top-ranked professionals and executives. The figures are based on average sales of homes in ZIP Codes with a median annual income of \$100,000 and a median home price in excess of \$300,000.

TOWN/ZIP CODE	JAN 2003	JAN 2002	CHANGE
<b>Stamford, Conn. (06903)</b>	<b>\$643,833</b>	\$662,327	-2.8%
<b>Mountain Lakes, N.J. (07046)</b>	<b>809,333</b>	663,591	22.0
<b>Manhasset, N.Y. (11030)</b>	<b>845,313</b>	930,057	-9.1
<b>Old Westbury, N.Y. (11568)</b>	<b>1,211,667</b>	1,601,667	-24.3
<b>Villanova, Pa. (19085)</b>	<b>781,667</b>	774,544	0.9
<b>Fairfax, Va. (22039)</b>	<b>556,171</b>	570,928	-2.6
<b>Glencoe, Ill. (60022)</b>	<b>710,438</b>	905,611	-21.6
<b>Lake Forest, Ill. (60045)</b>	<b>776,523</b>	712,675	9.0
<b>Los Angeles (90077)</b>	<b>1,018,598</b>	1,406,824	-27.6
<b>Menlo Park, Calif. (94025)</b>	<b>671,981</b>	675,582	-0.5

Source: First American RES

### Conforming Mortgage Rates

Average daily rate for a \$150,000 mortgage loan.\*


	30-YR FIXED	15-YR FIXED	1-YR ARM
<b>THIS WEEK</b>	5.54%	4.95%	3.94%
<b>LAST WEEK</b>	5.56	4.96	3.96
<b>LAST MONTH</b>	5.57	4.98	3.82
<b>LAST YEAR</b>	6.35	5.84	4.84

### Jumbo Mortgage Rates

Average daily rate for a \$335,000 mortgage loan.\*

	30-YR JUMBO	5/1-YR ARM
<b>THIS WEEK</b>	5.77%	4.64%
<b>LAST WEEK</b>	5.79	4.69
<b>LAST MONTH</b>	5.79	4.74
<b>LAST YEAR</b>	6.68	5.83

\*With 20% down payment. Source: bankrate.com, as of Feb. 20

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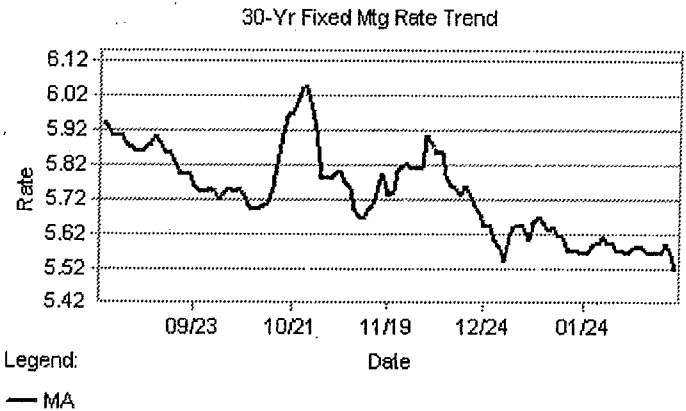
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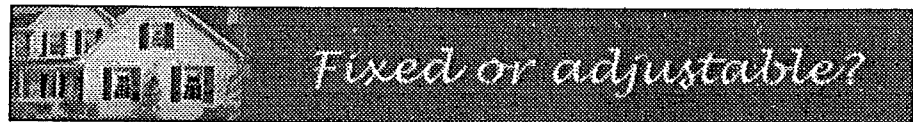
- Alabama
- Alaska
- Arizona
- Arkansas



Months to graph

1M  3M  6M



\* Mortgage rate may include points. See lenders for details. [Click here.](#)

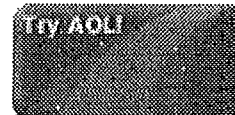


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\* Mortgage rate may include points. See rate tables for details. [Click here.](#)