

MEMORANDUM

TO: City Council
FROM: Anna Killion-Hanson, Director of Housing & Neighborhood Development
DATE: May 4, 2026
RE: Re: Reasonable Condition #4

The Thomson administration and Council share the same core objective: deliver more homes, including more affordable homes. The Hopewell South PUD exists to demonstrate that Bloomington can deliver more housing units—at a lower cost per unit—by removing regulatory barriers embedded in the current UDO. Bloomington has not produced enough housing to meet demand, and the lack of supply continues to drive prices up across the broader market.

Right now, our zoning framework does not adequately address the problem. It is overly rigid, costly, and misaligned with local needs—steering development toward large, out-of-state, student-oriented multifamily projects while making it increasingly difficult to build attainable homes for the people who live and work here.

A PUD is a corrective tool, not an exception to good policy. It allows us to reset the rules and test a different approach: one that prioritizes efficient land use, smaller-scale homeownership, and increasing the number of units we can actually deliver. The Hopewell proposal has gone through extensive coordination with City engineering, fire, sanitation, and planning staff, and the Plan Commission recommended the proposal unanimously.

At its core, Hopewell is about proving a simple but critical point:

If we want housing prices to stabilize, we must increase supply and create pathways for smaller homes on smaller lots—and that means making it easier, not harder, to build homes.

The RDC has committed to meeting the affordability requirements of the UDO. They are unable to lock in specific pricing or financing mechanisms prior to knowing the underlying costs (several of which are being impacted during the revisions process by the City Council).

One cannot set prices before one knows costs. Land value, infrastructure, construction, and interest rates will ultimately determine what is feasible. Attempting to force affordability levels in advance puts the city at risk of having yet another neighborhood that is approved, but ultimately unable to be constructed.

Cost ÷ number of units = price.

If the City requires homes to be sold below the cost to build, those homes require additional subsidy. Without that subsidy, the affordability requirement may reduce the number of homes delivered.

The UDO does not distinguish between multifamily and single-family housing—and that distinction matters when it comes to affordability. Lenders have testified at council that permanent deed restrictions and land trusts do not function well in the single-family market, particularly for conventional mortgage financing.

While these tools can be helpful in a portfolio of tools for affordability. They cannot be the only tools.

The ordinance reflects that understanding. It intentionally preserves flexibility:

“There are many mechanisms to protect long-term affordability... including silent second mortgages, equity share agreements, rights of first refusal, and partnerships with nonprofit organizations.”

This language ensures accountability while allowing us to use tools that will actually work.

Habitat for Humanity’s Osage Place PUD offers a useful comparison, as it is the only other PUD in this community delivering affordable homeownership. That program uses tools such as silent second mortgages, resale management, and flexible affordability structures.

- Council did not manage affordability mechanisms.
- There was not a 99 year or permanent affordability requirement.
- Osage Place is using the exact same tools we have identified: silent second mortgages, resale controls such as right of first refusals, and flexible affordability structures.

This project is being held to a fundamentally different and far more rigid standard, and one that does not have a track record nor a prediction of success by local experts.

What is being proposed here is not consistency in policy, but escalation.

There is already a commitment to permanent affordability.

But this condition attempts to mandate the mechanism—before costs are known, before financing is secured, and despite clear evidence that those mechanisms are not universally workable in the for-sale market.

Local lenders and the operator of the local land trust have testified that:

- Financing these models is difficult
- They are not suitable for every buyer
- Expanding them right now could delay housing delivery

This signals potential failure.

Funding mechanisms, ratios, and guidelines are not just about choosing a tool—ultimately, the decision leads to whether homes actually get built.

At a time when everyday costs are rising—including gas approaching \$5 a gallon—it is imperative that buyers can shop across multiple lenders to secure the best terms. Interest rates vary widely, even within the same day, and access to competitive financing is one of the most important drivers of affordability.

Restricting that flexibility in the name of affordability can actually undermine it.

Land trusts are one tool, but not the only tool. And right now, they are struggling in Bloomington. We need flexibility to deliver the most affordability possible. This is what will lead to actually housing the people who need it.

Reasonable Condition 4 does not only set a goal—it dictates the mechanism, without regard to feasibility, financing realities, or market function. Requiring the Commission to return for approval on every alternative affordability mechanism reveals a fundamental disconnect from the realities of housing finance and development, where rigid, pre-prescribed approaches can undermine both feasibility and the very affordability outcomes the condition seeks to achieve.

The RDC has committed to:

- Delivering affordability
- Meeting UDO requirements
- Using proven tools

What is happening here is different:

- Dictating mechanisms at the land-use stage
- Ignoring lender and industry input
- Altering ratios that have been proven to succeed

Overregulation here will undermine affordability and potentially stop the project. The way it has been proposed, it will likely increase prices, rather than reduce them.

The goal is a feast of housing options—at different price points, using different tools, serving different buyers.

Strapping the city with a land trust right now, with the lack of absorption and financing challenges in the current one, seems like we are being set up to fail.

To correct affordable housing in Bloomington for the long term, we need to figure out how to make it easier to increase the type of supply we need.

We are committed to delivering as many units as possible below 120% AMI—including below 90%. But we need real numbers to do that—not guesses.

We are prepared to report back transparently on what is achieved and how affordability is preserved.

The administration is committed to working together for the best possible outcomes, and appreciates your partnership in getting to a place where our policy allows for that.

Suggested changes to Reasonable Condition 4 Redline

Proposed Reasonable Condition 4

~~At least fifty percent (50%)~~ As many ~~of all~~ dwelling units in the Hopewell PUD shall be designated as Permanently Affordable (PA) ~~as possible (with a minimum of 25% total)~~.

1. Unit mix: the mix of PA units (bedrooms, square footage) must be proportionate to the market-rate units in the Hopewell PUD.
2. Functional equivalency: PA units must be functionally equivalent in construction quality and exterior appearance to market-rate units.

Compliance with the PA requirement shall be secured through one of the following recorded legal instruments:

1. 1. Deed restrictions or covenants: a perpetual deed restriction or covenant (99 years, renewing at the transfer of each deeded property) that runs with the land, binding all current and future owners to the affordability limits.
2. 2. Ground leases: A community land trust (CLT) or similar entity shall own the land and secure a long-term ground lease (minimum 99 years), in order to separate land ownership from structure ownership, ensuring the home remains affordable at every subsequent resale.
3. 3. Or ~~any~~ other legal mechanism ~~available to preserve~~ permanent affordability ~~as subsequently approved by this council as an amendment to this ordinance~~.

~~The Redevelopment Commission shall do everything possible to deliver as many units as possible under 90% AMI and will report back with the number of units achieved under that threshold.~~

~~Under no circumstances shall the targeted AMI be 120% AMI if lower AMIs can be demonstrably achieved.~~

~~At least once annually, the Housing & Neighborhood Development Department shall monitor the project and provide a report on:~~

- ~~Number of PA homes completed~~
- ~~% of AMI achieved~~
- ~~Mechanisms protecting PA~~
- ~~Project averages~~

Real World Example:

Please find below one real-world example of the complications associated with land trusts.

Example 1:

The appraisal does not include the land, impacting the loan-to-income ratio. This increases the mortgage insurance.

Payment: \$1,727 (80-100% AMI).

Loan Estimate

DATE ISSUED: [REDACTED]/2026
 APPLICANTS: [REDACTED]
 PROPERTY: [REDACTED]
 SALE PRICE: \$214,800 - without land

LOAN TERM: 30 years
 PURPOSE: Purchase
 PRODUCT: Fixed Rate
 LOAN TYPE: Conventional FHA VA
 LOAN ID #: 980000517
 RATE LOCK: NO YES, until
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 2/4/2026 at 5:00 PM EST

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$208,356	NO
Interest Rate	6.75 %	NO
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$1,351.39	NO
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments		
Payment Calculation	Years 1-13	Years 14-30
Principal & Interest	\$1,351.39	\$1,351.39
Mortgage Insurance	+ 111	+ -
Estimated Escrow <i>Amount can increase over time</i>	+ 265	+ 265
Estimated Total Monthly Payment	\$1,727	\$1,616

Estimated Taxes, Insurance & Assessments <i>Amount can increase over time</i>	\$265 Monthly	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>	In escrow? YES YES
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Example 2:

If the land is included in the appraisal, the land equity helps drive down the loan-to-value ratio, reducing the interest rate and also removing PMI. Payment= \$1457(60-80% AMI)

Loan Estimate		LOAN TERM	30 years
DATE ISSUED	█/2026	PURPOSE	Purchase
APPLICANTS	█	PRODUCT	Fixed Rate
PROPERTY	█	LOAN TYPE	<input checked="" type="checkbox"/> Conventional <input type="checkbox"/> FHA <input type="checkbox"/> VA <input type="checkbox"/> _____
	Bloomington, IN █	LOAN ID #	980000517
SALE PRICE	\$277,000 with land	RATE LOCK	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, until 5/7/2026 at 5:00 PM EDT <i>Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on</i>
Loan Terms		Can this amount increase after closing?	
Loan Amount	\$214,800	NO	
Interest Rate	5.625 %	NO	
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$1,236.51	NO	
		Does the loan have these features?	
Prepayment Penalty		NO	
Balloon Payment		NO	
Projected Payments			
Payment Calculation		Years 1-30	
Principal & Interest		\$1,236.51	
Mortgage Insurance	+	0	
Estimated Escrow <i>Amount can increase over time</i>	+	220	
Estimated Total Monthly Payment		\$1,457	

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Right of First Refusal/Silent Seconds

One of the proposed affordability frameworks—centered on silent second mortgages and rights of first refusal—is not conceptual or unenforceable; it is grounded in well-established, legally binding contractual mechanisms that are routinely used to preserve long-term affordability.

A silent second mortgage is recorded at the time of sale and remains in place until its terms are satisfied. It is not forgiven unless the homeowner complies with the contractual requirements, including resale to an income-qualified buyer at a price aligned with Area Median Income (AMI) standards. This ensures that the public investment is protected and that affordability is preserved beyond the initial transaction.

Similarly, a right of first refusal (ROFR) is a contractual right that allows a designated party to purchase the home at a pre-negotiated, formula-based price before it is offered on the open market. The Redevelopment Commission envisions a robust network of nonprofit and community partners who share the affordability mission. In practice, these partners will rarely need to take ownership of units themselves; instead, they will typically exercise the ROFR by assigning the purchase right to another income-eligible buyer—ensuring continuity of affordability without disrupting normal market activity.

These mechanisms run with the property, are enforceable through recorded documents, and are fully discoverable through title searches. At the same time, they avoid the rigidity and unintended consequences often associated with permanent deed restrictions, which can create barriers to financing, reduce market participation, and limit homeowner mobility.

It is important to distinguish between establishing a clear affordability requirement and micromanaging the tools used to achieve it. The specific legal documents and terms have not yet been finalized—and appropriately so. Land use approvals are intended to set policy direction, not dictate the exact structure of private financing instruments. We are committed to providing the affordability required, and we would like to go above and beyond that as much as possible. However, prescribing the exact legal architecture at this stage risks sidelining the expertise of housing practitioners, lenders, and nonprofit partners who are essential to making these programs function effectively in real-world conditions.

A more constructive approach is to approve the use of silent seconds and rights of first refusal with a requirement for periodic reporting back to Council. This would provide transparency and accountability—allowing Council to verify that affordability goals are being met—while also creating an opportunity to learn from implementation, refine strategies, and respond to market conditions over time.

Buyer purchases home with sales price \$83,160

- Affordable to annual income \$24,789.43:

Affordability is preserved using

- Silent Second Mortgage; AND
 - Recorded with the property
- Right of First Refusal
 - Requires that upon the next sale home must be offered to the City, non-profit, or assignee at a prenegotiated, formula-based price.

Example of possible structure:

- Prenegotiated purchase price the average of:
 - Appraisal
 - The formula-based price is determined by the capped appreciation model

Example formula:

(a) The amount of Homeowner's Base Price plus

(b) An amount equal to the Homeowner's Base Price multiplied by the total percentage of increase, since the date the Agreement was signed, in the AMI Index, as determined and published by the HUD.

(c) Price to be the average of the AMI Index price and the appreciation model

(d) In no event may the average annual increase exceed 3% appreciation per year.

(e) In no event may the purchase price ever exceed PUD AMI restrictions

(f) In the event that the Mortgagor(s)/Borrower(s) has incurred in excess of \$1,000.00 for a single improvement to the real estate during the entirety of Mortgagor(s)/Borrower(s)'s tenancy, as evidenced by providing receipt(s) or other documented proof, the purchase price may increase to reimburse to the Mortgagor(s)/Borrower(s) the cost of the improvement.

Ordinary maintenance expenses, including but not limited to, painting, repair of fixtures and/or appliances, and replacement of fixtures and/or appliances do not qualify as improvements. The City has sole discretion to determine whether an expense is an improvement under this policy.

Example: Original AMI at time of purchase: \$22,750

Same AMI at time of sale \$26,000

Change in index= 14%

\$83,160 x 1.14= \$94802

Price X 1+change in index = Formula Price

3% Appreciation cap= $\$83,160 \times 1.03 \times \# \text{ of years}$. Year one equals the initial purchase price.

3% appreciation will be calculated on a compounding basis by year. $\$83,160 \times 1.03 = \$85,654.80$ $\times 1.03 = \$88,224.44$, with this method being used to adjust over the total number of years between the initial purchase and recent sale.

- 10 years later buyer wants to sell the home
 - Max Purchase Price
 - Based on appraisal- \$125,000
 - Average of formula and appreciation cap: \$101,653
 - Based on Formula = \$94,802
 - Based on appreciation cap- \$108,504

The lesser of the appraisal and the formula is: \$101,653

In no circumstance could the home sell for more than the AMI restrictions in the PUD.

Purchase agreement executed for \$101,653 for income eligible home buyer and required to execute a new RROF & SS at closing.

Regarding Constituent Table

At the last meeting, a constituent passed out a document attempting to compare silent seconds and right of first refusals.

This document was plagued with issues, including.

- Using 2024 Census AMI numbers, not HUD AMI's that are published each and every year
- Using a median sales price as the basis
- Miscalculating AMI
- Showing a \$120,000 subsidy per home in all scenarios
- Making numerous incorrect assumptions
- Never applying the conditions that a silent second or right of first refusal would contain such as max home price, AMI limitations
- Failing to include PMI for land trust models
- Failing to include the additional land trust fee (Summit Hill's is \$45/mo)

It is very difficult to compare apples to apples because they are different and do not contain the same terms. The document shared was misleading.

Affordability Comparison

- Given:**
1. 2024 Monroe County Area Median Income = \$ 67,457
 2. Land trust restricts homeowner equity accrual to 25% of market value increase.
 3. All are first-time home buyers who qualify for 3.5% down payment through Federal Housing Administration.
 4. For 30-year mortgage with annual interest rate of 6.0%, monthly payments are 0.600% of the loan principal.
 5. Initial Affordable Housing Subsidy = \$ 120,000
 6. Annual property tax rate for homestead is 1% of the market value.
 7. Annual homeowners insurance is 1% of the market value.

- Predictions:**
1. Bloomington housing prices rise by 5% per year.
 2. Monroe County Area Median Income rises by 2.7% per year.

	Area Median Income	Home Market Value	Reduced Purchase Price	Monthly Mortgage Payment	Monthly Property Tax and Insurance	Total Monthly Cost	Minimum Required Income	AMI Level	
2027	\$ 73,070	\$ 360,000	\$ 240,000	\$ 1,390	\$ 600	\$ 1,990	\$ 79,584	109%	
2037	Community Land Trust	\$ 95,377	\$ 586,400	\$ 296,600	\$ 1,717	\$ 977	\$ 2,695	\$ 107,786	113%
	Silent Second Mortgage	\$ 95,377	\$ 586,400	\$ 466,400	\$ 2,700	\$ 977	\$ 3,678	\$ 147,112	154%