

## Alternative Homeownership Models

Using Creative Solutions to Deliver and Preserve Homeownership Opportunities

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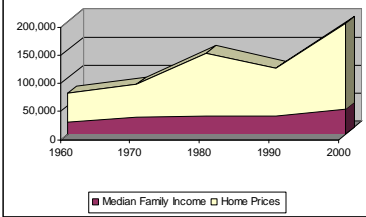
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## The Problem

Clatsop Co. Housing Cost vs. Family Income




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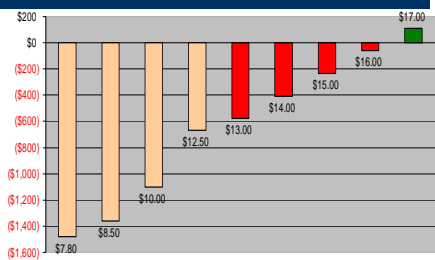
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## The Effect:

Clatsop County Net Incomes By Wage after Minimum Living Expense



Expenses used are minimum estimated living expenses from 2006 State of Oregon Poverty Report  
Red bars identify wages ineligible for affordable rental housing projects

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## Targeting Housing Assistance

To be successful and efficient, homeowner assistance must be targeted to meet the needs, abilities and desires of individuals and families.



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## Affordable Homeownership



- In this case, "Affordable" means priced below what the private market can provide.
- By definition, this requires subsidy.
- Subsidy can come from:
  - Family
  - Buyer (cash & equity)
  - Nonprofit sponsors
  - Government

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## Public and Nonprofit Assistance

- Direct Assistance:
  - Direct Interest Subsidy
  - Sweat Equity Programs
  - Affordable Lot Development
  - Down Payment Assistance
- Indirect Assistance:
  - Indirect Interest Subsidies (bond loans, other)
  - Mortgage Insurance
  - Care and Feeding of the Secondary Markets
  - Education & Counseling Programs
  - Support for HA, Nonprofits & Intermediaries

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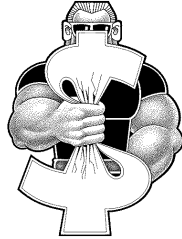
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## Preserving Public/Nonprofit Equity

- Effective methods to preserve public investment in rental housing are in place.
- Preserving public investments in Homeownership is less straightforward.



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## Affordable Homeownership is a Magnet for Incompatible Goals

The public, homebuyers, employers, state & federal agencies, city officials and city staff all have opinions that color their preferred choice of homeownership models.

- |                            |                            |
|----------------------------|----------------------------|
| • Public Involvement       | • Private Responsibility   |
| • Building Communities     | • Building Personal Wealth |
| • Public Investment        | • Unfettered Markets       |
| • Support Homeownership    | • Support Rental Housing   |
| • Single Family Homes      | • Multi-Family             |
| • Minimizing Personal Gain | • Maximizing Personal Gain |

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## Homeowner Interest Subsidies

- State Bond Financing – 1-2% off market rates
- Rural Development Direct Loans – rates as low as 1% based on ability to pay
- Individual Bank Programs – variable
- “Soft Second” Loans – public or nonprofit, typically 0% interest with no payments

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## Homeowner Purchase Subsidies

- Down Payment Assistance – Typically in the form of a soft second (\$10,000)
- Mortgage Insurance
- Sweat Equity Programs – Casey will address a federal program designed for rural communities

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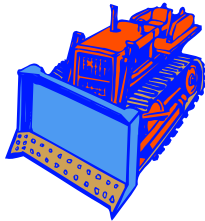
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## Affordable Lot Development

- Typically done by a nonprofit with public support
- Equity is created by the land development process
- Housing affordability comes from lower land cost
- Some type of preservation scheme is used



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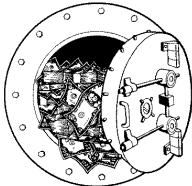
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## Preservation Schemes



- Community land trusts
- “Soft” second loans
- Shared appreciation
- Shared equity
- Deed restrictions

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## Community Land Trusts

- Were explained earlier by Lane deMoll
- Important characteristics
  - CLTs are tied to specific properties
  - Trusts become involved with homeowners
  - The trust typically provides support services
  - Homebuyers do not typically gain much equity
  - Particularly successful with low income buyers

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## Soft Second Loans

- Sources:
  - Direct Public Investment
  - Direct Nonprofit Investment
  - Recycled CDBG Loan Funds
- Terms
  - Low or no interest
  - Easy repayment terms
  - Lien on the property
  - Can carry other conditions



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## Shared Appreciation



- Needed equity is lent
- Loan agreements require buyer to repay loan plus a share of value increase
- Nonprofit beneficiary re-loans money to a new home buyer

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## Shared Equity

- Similarities:
  - Based on mortgage note
  - Requires repayment of portion of appreciation
  - Uses nonprofit as delivery vehicle
- Differences:
  - Based on equity percentages
  - More effective where subsidy investment is large
  - Owner and equity fund share in ups and downs of market

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## Shared Appreciation vs. Equity

Year	1	2	3	4	5	6	7
Projected Appraised Value	425,130	471,894	523,802	581,420	645,376	716,367	795,167
Original Equity	183,000	183,000	183,000	183,000	183,000	183,000	183,000
Loan Balance	197,968	195,790	193,454	190,949	188,263	185,383	182,295
Equity Gain	42,130	88,894	140,802	198,420	262,376	333,367	412,167
Repayment Calculated as % of Value	167,213	171,889	177,080	182,842	189,238	196,337	204,217
Repayment Calculated as % of Equity	200,526	242,179	288,414	339,735	396,701	459,933	530,121
Debt Affordable to the same AMI	206,000	212,180	218,545	225,102	231,855	238,810	245,975

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## Sweat Equity

- Urban areas have developed several sweat equity models
- In rural places, most sweat equity gets done using the USDA Rural Development Self Help Housing program

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## What is Self Help Housing

- 8 to 10 families helping each other build their new homes
- Planned neighborhoods developed by NP sponsor
- Skilled construction
  - Planning the projects
  - Training the families
  - Supervising the work



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## How is SH Housing Financed

- RD 502 Direct loans
  - Interest rate as low as 1% - based on income
  - Both construction and term loan
  - Incomes below 80% of AMI (\$43,100/ family of 4)
- RD 523 Grant
  - Pays the nonprofit for services provided to families
  - Must show net savings to RD vs. standard home cost

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## Self Help Housing Community Impact



- Self Help creates:
  - Strong communities
  - Self reliance
  - 90% of kids grad. HS
  - Community involvement
  - Personal wealth
  - Tax base

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### What's good About CAT's Self Help Program

- No down payment required
- We serve "very low income" (\$26,950/family of 4)
- Our families gain higher than average equity
- We have a variety of quality house plans, built with quality materials
- In Clatsop Co. we will use shared equity loans that protect community investment and family equity gain
- We help create strong community groups
- We support families through the project and beyond

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### What Must Families Do?

- Make application to CAT
- Have good credit
- Two people must commit to 30 hours/week for a year
- Be able to work with others as a team
- Learn construction skills

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### CAT uses a variety of house plans



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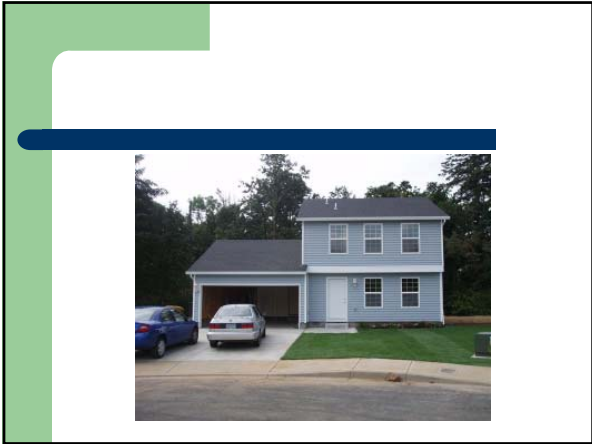
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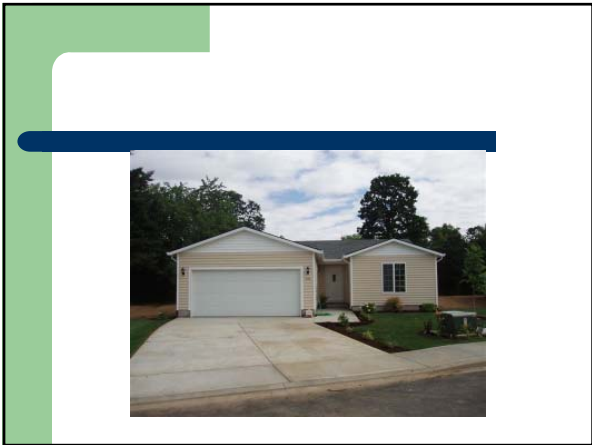
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**What is CAT's record with Self Help**

- Sixteen homes
- \$1.4 million in equity created
- \$2.2 million of spending in local economies
- \$3.2 million in added tax base
- Our current project:
  - 8 - 1500 sq. ft. townhouse (duplex) units in Scappoose

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