



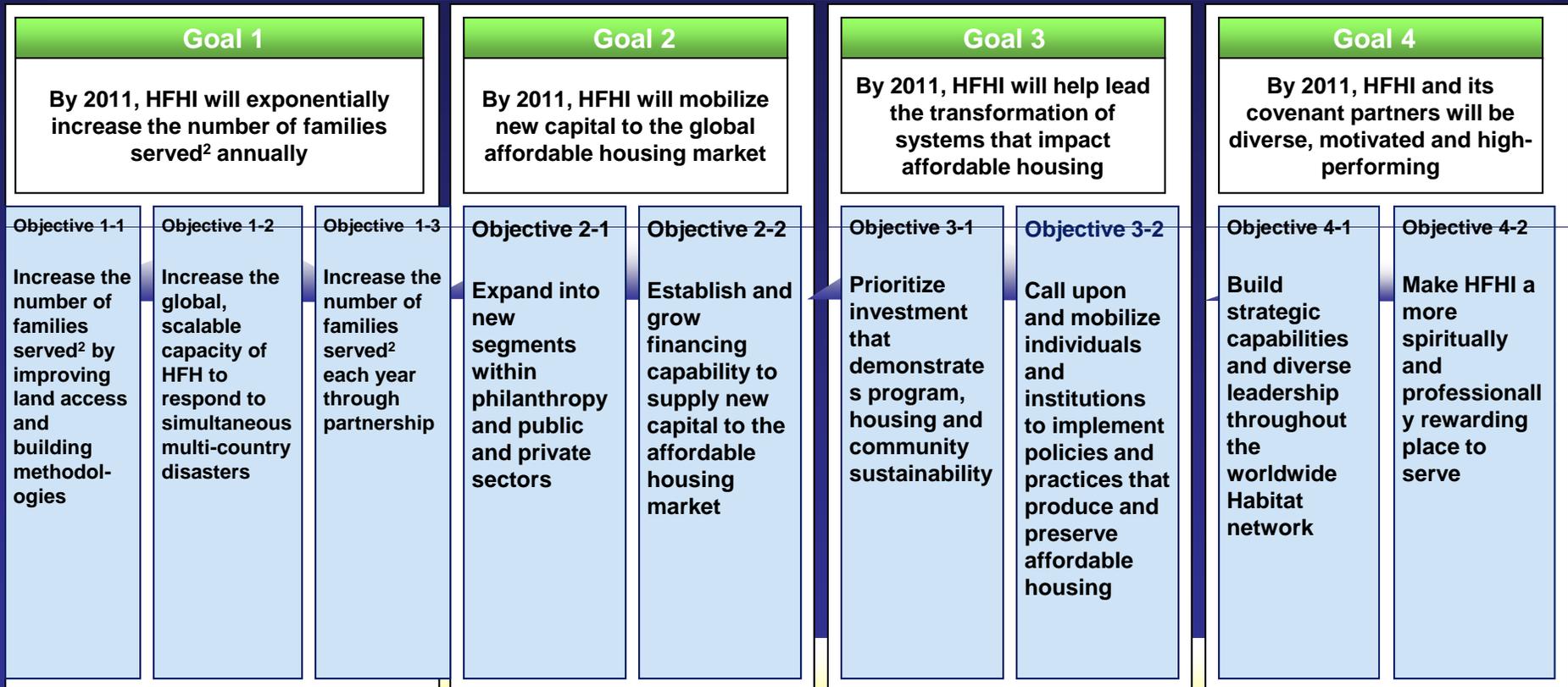
Advanced Topics in Housing Finance
Federal Reserve Bank of Richmond
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Habitat International's Subsidy and Sustainability Initiative/ US Council's Draft Sustainability Policy

Presenter: Stephen Seidel
Senior Director – Global Programs
Habitat for Humanity International

HFHI Five-Year Strategic Vision

Mobilizing people, and financial and social capital, HFHI will demonstrate the love and teachings of Jesus Christ by serving as a partner and catalyst for worldwide access to decent, safe, affordable housing

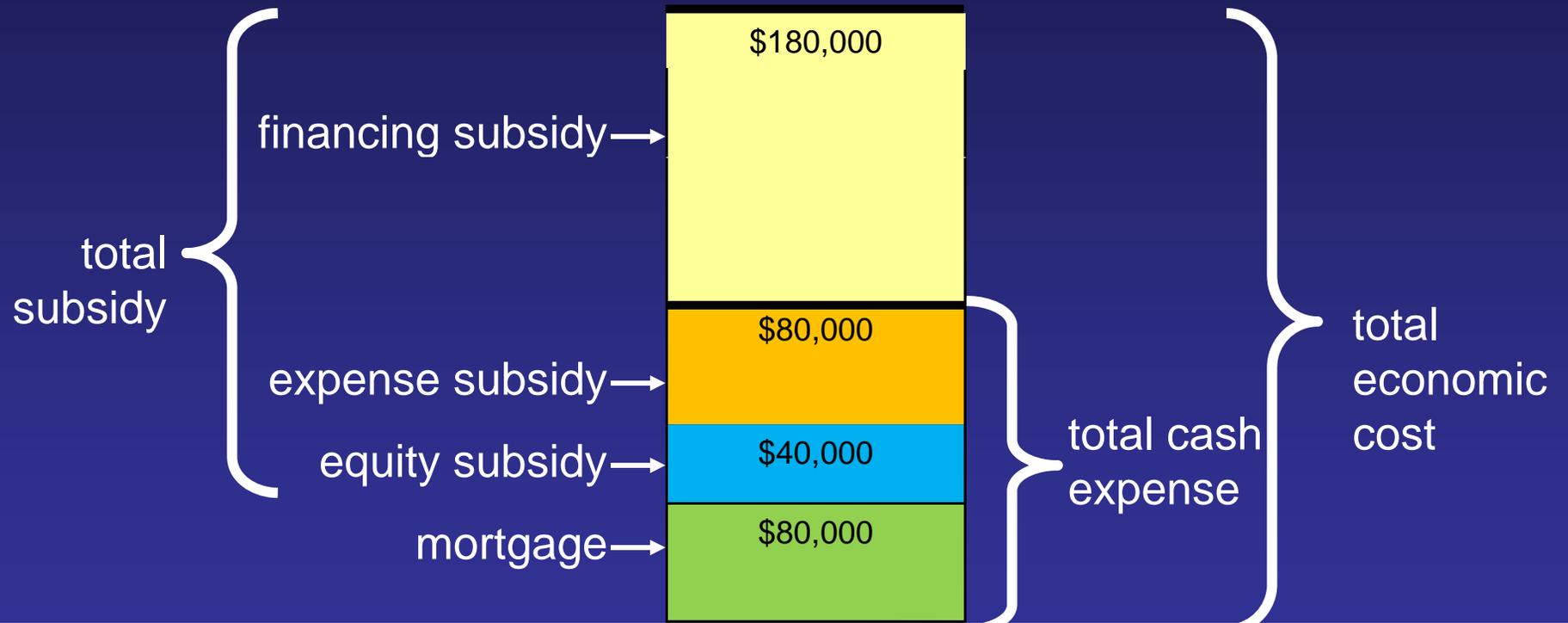


Sustainability and Subsidy Policy: Key Themes for HFHI

1. **Family sustainability** – Ensuring sustainability for the family and the community.
2. **Organizational sustainability** – Creating the basis for serving more families now and in the future.
3. **Subsidy strategy** – Understanding the real costs of our program and intentionally allocating our resources to most effectively accomplish our strategic priorities. There will always be a subsidy in our work; the intent of this policy is to improve its efficacy.
4. **Transparency** – Truth in advertising around the “Fund for Humanity” and how much a homeowner really pays will help us sharpen our message, our strategy and mitigate misunderstanding and public confusion in the future.
5. **National Decision** – Each national organization will develop specific policies – including flexibility for their own affiliates. The US Council will provide leadership on this initiative in the US.

Subsidy Analysis (average per unit in US)

Subsidy, Expense, & Cost Relationship



POLICY UPDATES ADOPTED 9/19/07

HOUSE PRICING

Sale price can include:

- Costs of land and infrastructure
- Legal and recording fees
- Direct cash construction costs for labor and materials – including pro-rated share of program costs such as site supervisors, AmeriCorps, vehicles, volunteer coordination, etc.
- Value of In-kind donations of materials and services
- Licenses, permits, insurance and fees
- Admin costs up to 10% of direct construction/development costs

POLICY UPDATES ADOPTED 9/19/07

MORTGAGE POLICIES

- Households selected must not have income in excess of 60% Area Median Income (AMI) – Quality Assurance Checklist
- Initial monthly house payment, including principal, taxes, and insurance should not exceed 30% of the homebuyer's monthly income
- Term for first (amortizing) mortgage note should not exceed 30 years
- Affiliates may incorporate a “shared appreciation” provision into the sales documents, allowing the Affiliate to claim some percentage of the increase in the appreciation in the value of the home beyond the home's initial appraised value.

PROPOSED POLICY CHANGES 9/24/09

NEW INCLUSIONS TO MONTHLY PAYMENT

- Loan Servicing Fees
- Mortgage Insurance (if Loan-To-Value is > 80%)
- Monthly Payment with these costs included may not exceed 30% of gross household

PROPOSED POLICY CHANGES 9/24/09

OTHER PROVISIONS

- Professional quality loan servicing required
- Right of affiliate to intervene, and to re-assess family financial circumstances
- Due diligence in assessing ability-to-pay
- Mortgage term can extend to 40 years
- Pre- and post-purchase counseling
- Evaluate use and extent of subsidy

PROPOSED POLICY CHANGES 9/24/09

NEW FINANCING OPTIONS

- US Department of Agriculture Rural Development 502 Direct Loan Program
- Zero-Equivalent Mortgage Program

USDA 502 PROGRAM

Self-Help, Community Built Homes

Primarily in Rural Areas

- 502 program: Subsidized loan (1%) provided by 3rd party lender
- Affiliate provides Technical Assistance to selected family to build their home, receives full payment of sale proceeds at closing
- USDA makes mortgage loan directly to the partner family
- Newnan-Coweta (GA) will be first authorized to use 502 loan program

PROPOSED POLICY CHANGES 9/24/09

IMPLICATIONS OF NEW POLICIES

- Factor more of the full costs of producing a home into the sales price – greater transparency in our operations
- More options and great flexibility for affiliates in financing their production – while maintaining core values of serving low-income households and assuring affordability
- Increased emphasis on quality of service to home owners – pre- and post-purchase counseling, loan servicing, ability to intervene on behalf of the homeowner, pre-determined terms for negotiation of forbearance agreements

PROPOSED POLICY CHANGES 9/24/09

DESIRED OUTCOMES OF NEW POLICIES

- Operational Efficiency – Increased families served, reductions in subsidy levels, increased giving and volunteerism
- Family Sustainability – Assuring affordability and income thresholds, mortgage repayment rates
- Organizational Sustainability – Enhanced fundraising, increase in net assets and cash position, adequate levels of administrative support at the affiliate level
- Community Sustainability – Selected “Success Measures” indicators

RECENT FINANCE INITIATIVES

- USDA 502 Program
- Zero-Equivalent Mortgage program
- FlexCAP
- New Market Tax Credits
- NSP 1 and 2
- Section 4 Capacity Building
- ReStores
- Federal Home Loan Bank
- Community Land Trusts
- Collaboration with Federal Reserve Bank System

Cost and Effectiveness of Fundraising Techniques With Comparison to Mortgage Sales

Technique	Cost to raise \$1*	% Organizations Reporting Success with Technique**
Direct Mail Acquisition	\$ 1 to \$ 1.25	Not reported
Direct Mail Renewal	\$.20	67.9%
Special Events	\$.50	60.3%
Corporations	\$.20	47.6%
Foundations	\$.20	62.6%
Major Gifts	\$.05 to \$.10	77.0%
Planned Giving	\$.25	66.8%
Capital Campaigns	\$.10 to \$.15	Not reported
Mortgage Sales	Actual 0 to \$.40 Book Value (Net Gain)	Not included either report

* "Fund-Raising: Evaluating and Managing the Fund Development Process" (1999), by James Greenfield

** Philanthropic Giving Index, The Center on Philanthropy

State of New York Mortgage Agency (SONYMA) Zero-Equivalent Mortgage Program

- Affiliate builds home and selects family to purchase home, using standard methods (volunteer labor, etc.) and HFHI affordability and income thresholds
- SONYMA obtains 2% financing from third-party lenders
- SONYMA uses this financing to provide family with mortgage loan at 2%, but discounts the principal amount of the loan so that the monthly payments are equal to a 0% mortgage loan with a higher principal amount
- SONYMA pays the affiliate this discounted principal amount at closing
- Homeowners need to have a strong credit rating

New Market Tax Credits – \$25 Million Allocation for Gulf Zone

Step #2:
Affiliate Loan Pool Managed
By HFHI

Step #1:
Affiliates assemble \$17,500,000

