

***Shared Equity Housing:
A Forum on Financing and Capitalization***

June 22, 2012

Summary and Key Takeaways

1. Meeting Overview

The Shared Equity Housing Forum brought national and regional housing and community development experts, including representatives of affordable housing developers, shared equity organizations, financial institutions, and public agencies together to share ideas and recommendations for bringing shared equity housing to scale. Forum partners included Federal Reserve Bank Board of Governors, Federal Reserve Bank of Richmond, Neighbor Works America and the Ford Foundation.

This meeting was the result of direct feedback from a culmination of shared equity housing forums held over the past two years. The Federal Reserve Bank of Richmond in partnership with local community development stakeholders held six local forums and one southeastern conference focused on shared equity housing and community land trusts. The purposes of those meetings were to look at these models as possible solutions to addressing neighborhood revitalization and affordable housing. During all convenings partners expressed the challenges they faced in taking these models to scale. Barriers included sustainability issues, access to capital and mortgage financing, and need for and the availability of public and private subsidies.

Forum partners agreed in order to holistically address these barriers a core group of national and regional housing and community development experts, including representatives of affordable housing developers, shared equity organizations, financial institutions and public agencies, needed to come together to discuss and identify possible solutions to these barriers.

Discussions at the Forum included information on borrower financing, capitalization and secondary market options. The goal was for forum participants to make recommendations that would help build a framework that could help foster shared equity housing and address the financial barriers that have prevented its growth to provide sustainable and affordable housing.

The group agreed a follow up work group would be helpful to further investigate the issues related to bring shared equity housing to scale. A follow up meeting will be planned to debrief the recommendations and determine the feasibility of a longer term work group to work on implementation strategies.

2. Workgroup Findings

Work groups were created to tackle the following issues: (1) *How to Acquire Units at Scale- Direct Financing Tools*; (2) *How to Acquire Units at Scale- Indirect Tools*, (3) *How to Obtain Financing needed to create/attract New Homeowners at Scale*, (4) *What Role do/should the GSE and Housing Finance Agencies play*, and (5) *What role do/should government play- federal, state and local?*

(1) Acquire Units at Scale Direct Financial Tools

This group was led by Aaron Miripol of Urban Land Conservancy of Denver, Colorado, focused on means to acquire units at scale using direct financial tools.

Challenges/Barriers:

- The need from practitioner that equity stays (patient) and fills the gap
- Lender needs/LOC/PRI (PWI)
- Practitioner capacity
- Universe of shared equity unknown
- Models not well understood
- Risk between acquisition finance and homeowner finance
- Product standardization (FHA needed –sellable)
- Regulators – OCC, CFPB etc (banks)
- Must be a good steward and not just “a deal”
- Increasing self sufficiency

Opportunities/Innovation:

- Certification (individuals)- standardization
- Self sufficiency ratings (organizations)- standardization
- Perm. Affordability tax credit
- More LIHTC options
- PWI, CRA, Community Development investments
- Transient Orientated Development (TOD) fund
- CDFIs- PRIs expanded- work with CDFIs
- Public sector investments (local)
- FHA – regulations for CLTs (waiver, rules, deed restricted, practitioner certification)

(2) Acquire Units at Scale- Indirect Financial Tools

This group was led by Tony Pickett of the Atlanta Land Trust Collaborative, focused on strategies to acquire units at scale outside of financial tools.

Challenges/Barriers:

- Inclusionary zoning- monitoring, education on the value of homeownership as stabilization strategy
- Developer lack of awareness/resistance to effort
- Overall legal basis and implications of deed restrictions- misaligned public policies
- Educating mortgage lenders/industry
- Regulatory issues for banks
- Lack of consistent national program approach
- Need more money
- Incentives for National Inclusionary zoning effort result from planning
- More Press Coverage
- Create New Affordable Housing opportunities in existing residential communities

Opportunities/Innovations:

- Inclusionary zoning linked to TODs
- Define a public property disposition strategy
- Convert LIHTC and public housing in shared equity housing
- New investment models such as Land Bank Authorities as partners and mortgage servicers settlement (\$250M)
- Employer assisted housing options
- REO Donations/Property exchange
- Create an investment pool
- Consider secondary market opportunities with Fannie Mae

(3) Financing to attract new homeowners at Scale

This group was led by Kelly Weiss and focused on financing to attract new homeowners at scale.

Challenges/Barriers:

- Difficult secondary market for 1st – none for second liens/shared equity restrictions (DU vs manual)
- Regulatory environment on 1st liens
- No consistency in the 2nd Market
 - FHA does not allow restrictions to survive foreclosure
 - Fannie Mae (ground lease and rider)
- Buyer education about the products
- Educating stakeholders (Realtors- offer CE credit)

- HUD “min” standards for affordability
- Capacity/resources for smaller organizations
- Appraisals

Opportunities/Innovation:

- FHA draft- 24CFR 203.41- making changes
- More standardization
- Create incentives for lenders
- Develop new ideas
- Lender database of shared equity programs approved (national/state/local)
- Private placement (insurance companies)
- Educate on DU/when can use
- National models/inventory of programs
- Banks relieved of certain regs/regs and warranties if they hold seconds (CRA)
- CDFI- National funding for 1st/2nd and purchase these
- QRM- where are late in the process?

(4) HFA's and GSE's

This group was led by Dave Wilkinson of City First Enterprises in DC and focused on HFA's and GSE's.

Challenges/Barriers:

Housing Finance Authorities Barriers:

- Many don't permit PAR
 - Perceived risk
 - Complicated/different
 - Lack of trusted partners
- Secondary market access
- Mortgage insurance- FHA
- Core BIZ model impaired in current market
- Systemic property tax/appraisal
 - Lack of standardization
 - Legal issues
 - Stats
- Not understood- not supported

GSE Barriers:

- HFA- acceptance
- GSE- exception
- Lack of standardization

Opportunities/Innovations:

- Expand support from HFA's- some get it/provide support/incentives (down payment assistant- interest rate bump)
- LIHTC- QAPs support L.T. AF. (especially at expiration)
- Expand on Fannie Mae Rider
- Some standardization
- NC- APR/Property tax legislation
- Increase Data to tell story
- GES could be more support
- GSE should have broader set of pre-approved- standard Perm AF restricted (pushes to program standardization)
- No Requirement to reapply once approved with one Bank
- QRM
- HFA provide source of capital/liquidity for 2nd mortgage programs (high rates?)
- HFA increased access to mortgage financing for SEH
- HFA require shared equity housing (make preservation part of mandate)
- HFA provide additional points in their QAP, AHP, etc
- Use data to make the case
- Connect HFAs with programs and big advocates- give them tools to support

(5) Role of State and Local Governments

This group was led by Van Temple of the Crescent City Community Land Trust of New Orleans, LA, focused on the role of state and local governments.

Challenges/Barriers:

- Policies favor short term strategies
- Most communities lack local resources
- Limited funding, loss of CDBG and HOME money
- Personnel and expertise
- Lack of federal programs/resources to support shared equity
- Need research methods that are easy to digest, proving benefits
- FHA/GSE barriers to long term affordability

- Lack of clarity in public policy goals of housing subsidies
- Focus on active subsidy- recapture strategies

Opportunities/Innovations:

- National marketing/presentations on benefits should be coordinated
- Simple, practical data- easy to understand and compelling
- Clear contrast with less effective affordability strategies
- Set aside or incentivize existing money
- Unit years concept should be introduced
- Change success measures
- Change federal criteria/affordable retention period
- Focus on federal policies- ex. HOME- they are a bell weather for other programs
- Loan consortium to support SE mortgages
- CDFI/NMTC involvement
- Match innovative thinking in field to innovative thinking in government
- SHFAs dedicated programs for short and long term money
- Use of Real estate transfer fees
- LIHTC expiring project conversion (in QAP from the beginning)
- HUD- Incentivize or require subsidy retention (retention not recapture)
- Change the game- unit years not units produced
- State revise QAPs to incentivize or require SHE at end of LIHTC period
- HUD add 5% admin to HOME programs only for PJs running SHE and stewardship programs

3. Common Themes

There were several themes that were identified by multiple work groups:

- A **need for standardization** across shared equity housing, including standardization of lending practices, property tax and appraisal, and FHA products (e.g., ...).
- A need to develop platforms and strategies for **increased national education and awareness** across lenders, developers, regulators/CRA, realtors, and the HFA.
- A need for a **secondary market** in the shared equity space.

4. Key Recommendations for Future Research, Development and Leadership

1. Certification will be key for industry collaboration – develop a national process for certification, with a ‘Good Housekeeping’-type seal of approval. Use unit years instead of number of units when evaluating the impact of a unit.
2. FHA and Housing Finance Agencies (HFAs) should have mortgage mandates for preservation and/or permanent affordability.

3. Collect and share data to make the case to FHA that these models work.
4. Connect QRM regs
5. Link Inclusionary Zoning to Transient Orientated Development as part of community planning strategy.
6. State HFAs should dedicate 5% of money and programs for Shared Equity Housing
7. Consider certification for individuals.
8. Identify or create a national CDFI that serves (finances) Shared Equity Housing nationwide.