

The Advantages of Mortgage Lending to Buyers of Shared Equity Homes

Understandably, lenders are interested in providing mortgages to individuals who punctually make payments, avoid delinquency and foreclosure, upkeep their properties, and may easily sell their homes. Homeownership opportunities through community land trusts, inclusionary housing programs, and other shared equity homeownership programs provide these results, offering lenders a sound financing opportunity that advance CRA goals.

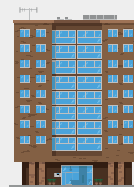
What Do Shared Equity Homeownership Programs Do?

1. Provide Affordable Homeownership Opportunities to Lower Income Households & Households of Color

Shared equity homeownership programs sell homes at below market-rate prices to low- and moderate-income households. In exchange for the discounts and support of the program, they agree to sell the homes below market rates in the future so that the homes stay affordable for subsequent income-qualified buyers. Hence, the homes remain permanently affordable, helping family after family access homeownership. There are different shared equity homeownership models:



Community land trusts (CLTs) typically use a ground lease to impose resale restrictions, whereby the nonprofit CLT owns the land under the home, and the homeowner obtains a mortgage to purchase only the improvements.



Inclusionary Housing or Below Market-Rate Programs typically use a deed-restricted covenant to impose resale restrictions and protect the interest of the government or nonprofit.

Programs are selling homes for far less than 80% of the property's fair market value, so buyers avoid the need for mortgage insurance. Hence, the Loan-to-Values tend to be very low, minimizing the risk for mortgages.

A national study of 58 shared equity programs found that the average household income was 63% of the Area Median Income (AMI) at the time of purchase, and 43% of buyers were households of color since 2013. [1]

2. Ensure Homes Remain Permanently Affordable & Homeowners Build Wealth

In exchange for the opportunity to own and build wealth from a home purchased at a discounted price, the household agrees to restrictions on their financial returns at resale. By restricting the resale price, the program ensures that the home remains permanently affordable for low-to-moderate income buyers, resale after resale. The formula used to restrict the resale price of homes varies by program to balance wealth creation for homeowners with preserving the homes affordability into the future.

Over decades of market upturns and downturns, shared equity homeowners on average invest only \$1,875 in down payment to purchase homes at an average affordable price of \$105,000 and realize \$14,000 from appreciation and \$8,500 in principal pay down when they sell. Meanwhile, the homes remain affordable to the same income levels over subsequent sales.

3. Steward Successful Homeowners & Well-Maintained Homes

To help owners not only attain but retain homeownership, programs provide pre- and post-purchase education and support. The policies and practices of programs vary but include the following stewardship activities to improve mortgage performance:

1

Educate buyers pre- and post-purchase

2

Oversee loan acquisition for purchase, refinancing, and HELOCs

3

Promote sound maintenance and repairs

4













Detect and intervene with homeowners at risk of default or foreclosure;

5

Interact with first mortgage lenders

At the peak of the foreclosure crisis, the stewardship activities of shared equity programs prevented completed foreclosures for 82% of homeowners who were at least 90 days delinquent or in foreclosure proceedings. [4]

How Has Shared Equity Homeownership Stacked Up Against Conventional Homeownership for Lower Income Households?

	Through upturns & downturns...	At the peak of the foreclosure crisis (end of 2010)...	Based on data from 2016 for hundreds of comparable conventional homeowners and shared equity homeowners... [5]
Conventional Homeownership	 <p>less than 50% of low-income and minority owners maintain homeownership for 5 years. [2]</p>	 <p>...8.57% of mortgages—across all incomes—were seriously delinquent. [3]</p>  <p>...4.63% of mortgages—across all incomes—were in foreclosure proceedings. [3]</p>	 <p>...conventional owners had \$1,808 in monthly credit account payments, including mortgages.</p>  <p>...13.2% of conventional owners had open HELOCs reported in the last 6 months.</p>  <p>...conventional owners had a credit score of 722.</p>
Shared Equity Homeownership	 <p>74% of low-income, shared equity owners maintain homeownership for at least 6 years. [1]</p>	 <p>...1.30% of mortgages held by low-income shared equity owners were seriously delinquent. [4]</p>  <p>...0.46% of mortgages held by low-income shared equity owners were in foreclosure proceedings. [4]</p>	 <p>...shared equity owners had \$1,149 in monthly credit account payments, including mortgages.</p>  <p>...1.4% of shared equity owners had open HELOCs reported in the last 6 months.</p>  <p>...shared equity owners had a credit score of 714.</p>
	Longer Tenure	Less Delinquency/ Foreclosure	Lower monthly costs, HELOCs

Why Should Lenders Partner with Shared Equity Programs?

The program has a vested interest in the success of the homeowner and the upkeep of the home, which benefits the first mortgage lender. Whether a lender offers a portfolio mortgage product or sells the loans on the secondary market, the lending institution is participating in a low-risk investment that advances CRA goals.

- Home purchase loans are required to be affordable.
- Refis & HELOCs that can compromise the first mortgage are prohibited.
- Property maintenance is typically monitored and promoted.
- Financial counseling and assistance are offered for homeowners during times of hardship.
- Resales are facilitated by the program and typically expedient.
- If foreclosure occurs, the program or an eligible buyer will typically purchase the home.
- The lender may receive CRA credit.

[1] Ruoni Wang, Claire Cahen, Arthur Acolin, & Rebecca J. Walter. (2019): Tracking Growth and Evaluating Performance of Shared Equity Homeownership Programs During Housing Market Fluctuations Working Paper (WP19RW1). Cambridge, MA: Lincoln Institute of Land Policy.

[2] Carolina Katz Reid. (2005): Achieving the American dream? A longitudinal analysis of the home ownership experiences of low-income households (CSD Working Paper 05-20). St. Louis, MO: Washington University, Center for Social Development.

[3] Mortgage Bankers Association. (2011): National Delinquency Survey Q4 2010. Washington, DC: Author.

[4] Emily Thaden (2011): Stable Home Ownership in a Turbulent Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts (WP11ET1). Cambridge, MA: Lincoln Institute of Land Policy.

[5] Brett Theodos, Christina Plerhoples Stacy, Breno Braga & Rebecca Daniels (2019): Affordable Homeownership: An Evaluation of the Near-Term Effects of Shared Equity Programs, Housing Policy Debate, DOI: 10.1080/10511482.2019.1596965.

