

# **Taking Shared Equity Homeownership to Scale**

## **A Federal Demonstration of a New Approach to Sustainable Homeownership**

The new administration takes office at a very complex moment in history. With foreclosures rising, the credit markets in disarray, and the economy in recession, the focus of federal housing policy development is understandably on the critical short-term issues of helping homeowners avoid foreclosure, helping neighborhoods address the consequences of foreclosures, and using housing construction and rehabilitation to stimulate the economy.

One could argue that the urgent need to respond to these challenges would require that we put aside essential longer-term goals like developing more sustainable approaches to affordable homeownership, combating economic inequality, and reducing energy use and greenhouse gas emissions. But a more thoughtful response would leverage our immediate response to the foreclosure crisis to make progress toward addressing these long-term issues and overcoming some of the problems that contributed to today's crisis.

This is a proposal for a more comprehensive response.

In brief, the proposal is to invest \$125 million in a demonstration project benefiting approximately 5,000 households. This project would test and document the viability of shared equity homeownership – a promising new approach to creating and preserving affordable homeownership and asset-building opportunities for millions of American families. Shared Equity homeownership represents a safer and more sustainable approach to affordable homeownership that, if adopted widely, could provide families with meaningful alternatives to the risky subprime financing that contributed to the foreclosure crisis and resulting economic meltdown.

A demonstration program focused on bringing shared equity homeownership programs to significant scale in 8-10 housing markets around the country could contribute to the nation's immediate challenges by:

- Helping homeowners avoid foreclosure by giving them the option of converting their home from traditional to shared equity homeownership.
- Stabilizing communities affected by foreclosures by facilitating the marketing and sale of foreclosed homes using shared equity homeownership.
- Funding the construction and/or rehabilitation of affordable shared equity homes near public transit and job centers. This would create construction jobs, help to reduce energy use and carbon emissions associated with long car trips, and improve job access and stability for low- and moderate-income families.

In addition to addressing the immediate objectives of keeping families in their homes, stabilizing communities and stimulating the economy, this demonstration would also build the capacity of key local partners to work together to advance the federal goal of creating a system to support sustainable homeownership. Lessons learned from this

initiative would help inform the more than \$1 billion annual spending on homeownership through federal block grant programs, as well as hundreds of millions of state and local funds.

In all, this proposal would help create sustainable homeownership opportunities for an estimated 5,000 families, as well as thousands of future homebuyers who move into the homes once the original occupants elect to move on.

## **Why Focus on Shared Equity Homeownership?**

There are many lessons to be learned from the painful foreclosure crisis now gripping our nation. Clearly, we need greater regulatory and market discipline and improved financial education for homebuyers. But in the search for lasting solutions we need to also think more broadly about homeownership as a policy goal. While it seems unfair to suggest, as some recently have, that we abandon the goal of expanding homeownership, we do need to find more sustainable ways to offer the benefits of homeownership to lower income families.

Shared equity homeownership represents a promising approach for helping lower income families access sustainable homeownership. It combines stable, affordable housing payments with most of the benefits of ownership, including control of one's physical environment and opportunities to build equity. Shared equity homeownership also provides families with protection against drops in home values and helps to preserve the buying power of public subsidies over time to help one generation of homeowners after another.

Under shared equity homeownership, a government or nonprofit agency acts as a co-investor with a new homebuyer, investing substantial public funds to reduce homeownership costs to an affordable level. In return for this assistance, homebuyers agree to limit their future equity appreciation in order to preserve affordability for future lower income buyers. Shared equity homeownership brings together a range of different housing models including limited equity housing cooperatives, community land trusts and deed restricted houses and condominiums. What these models have in common is a commitment to balancing the twin goals of preserving housing affordability for future generations and offering today's homeowners a dependable opportunity to build significant wealth. Shared equity homeownership programs offer steady wealth creation without the boom and bust of speculation.

Shared equity homeownership has multiple benefits:

- It provides families with a lower-cost homeownership option that reduces the need for them to stretch and take out unaffordable and unsustainable loans.
- It provides buyers with protection against downturns in the market. Because families purchase homes at levels that are substantially below market, they can weather quite a substantial market price decline without taking a loss.

- It provides substantial and predictable wealth creation opportunities for participating families.
- It preserves the value of public subsidy over time, creating a stock of permanently affordable homes.<sup>1</sup>

## Why Is A Federal Demonstration Needed?

Successful shared equity homeownership programs already exist in many communities throughout the country. To provide the balance needed in the Nation's housing market, however, these modest programs will need to be expanded significantly. Taking shared equity homeownership to scale will require a range of coordinated efforts to (a) educate policymakers about the benefits of shared equity, (b) invest in the capacity of local regional or state program sponsors to administer these programs, (c) test alternative approaches to operating these programs at scale, (d) develop standardized approaches that simplify the adoption of new programs, (e) and evaluate the long-term benefits for families and communities.

These steps will not be expensive. To the contrary, over time they will result in a net savings of public sector resources, but they will require political will and leadership.

A federal demonstration would act as a catalyst for raising the visibility of shared equity homeownership as well as a crucible for assessing and addressing the challenges involved in taking this model to scale.

## How Would the Demonstration Work?

This demonstration would involve two components:

- The competitive allocation of \$110 million to 8 to 10 state, regional and local jurisdictions that would use the funds to test different approaches for taking shared equity homeownership to scale. These funds would be used principally for subsidies to bring the costs of homes within reach of low- and moderate-income families.<sup>2</sup> While subsidy levels will likely vary from market to market, on a national basis, these funds should be sufficient to assist an estimated 5,000 households at an average cost of \$20,000 to \$25,000 per home.
- \$15 million in research and technical assistance to rigorously evaluate the outcomes of the demonstration, help jurisdictions identify and overcome barriers

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<sup>1</sup> Current spending of over \$1 billion per year on homebuyer subsidies provides assistance to approximately 30,000 families (3 of every 100,000 us households.) By contrast, if we were to make the same annual investment in a lasting way, over 40 years we could build a permanently affordable portfolio of 1.2 million Shared Equity Homeownership units. Regular turnover in this portfolio would allow roughly 285,000 new lower income families to purchase affordable homes each year.

<sup>2</sup> A small amount of funding would be reserved for sound program administration at the federal and state/local levels, along with any start-up funding needed to allow the organizations that will be developing, managing and marketing this stock (sometime called stewardship entities) to take on the expanded responsibilities.

to going to scale (such as building organizational capacity to develop, market and manage this portfolio; educating consumers about this new product; etc.), develop and assess standardized approaches, and disseminate learning from the results to inform policymaking at the national, state and local levels.

For the competition, states and localities would be invited to submit proposals for how they plan to take shared equity homeownership to scale in their market. Jurisdictions would be free to request funding to meet any locally-defined housing need, but priority would be given to jurisdictions that chose to use the federal funding they receive for one or more of the following purposes:

- Assistance to existing homeowners to help them avoid foreclosure by converting their home from traditional to shared equity homeownership.
- Subsidy to bring down the purchase price of previously foreclosed homes acquired as part of a neighborhood stabilization effort. The subsidy would help communities market the homes to families who can afford them, while also expanding the inventory of shared equity homes.
- The construction and/or rehabilitation of affordable shared equity homes near public transit or job centers. This would create construction jobs, while reducing energy use and improving job access and stability for low- and moderate-income workers.

To maximize learning from the initiative, a range of different approaches would be studied. A preference in the allocation of funds would be provided to jurisdictions that already have experience with shared equity homeownership at a small- or medium-scale, as well as to jurisdictions willing to commit state or locally controlled funds to augment the effort.<sup>3</sup>

The precise income range to be served will vary from jurisdiction to jurisdiction, depending upon local needs. Applicants will need to demonstrate, however, that the families targeted to be assisted under the initiative are not adequately served by the private market.

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<sup>3</sup> The preference would be based both on the amount of the state or local match (the higher the match, the higher the preference) and the source of the match. States and localities that use non-federal funds for the match would receive the highest priority, with secondary priority provided to states and localities that use federal funds that they administer – such as funds provided through the Community Development Block Grant, HOME Investment Partnership or Neighborhood Stabilization Programs.