



# How To Use the Neighborhood Stabilization Program for Shared Equity Homeownership

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# Shared Equity Homeownership

Benefits of home price appreciation are shared between the:

- Public entity providing the subsidy; and
- Individual buyer assisted with that subsidy.

# How Can Shared Equity Help My Community?

- Option 1: **Subsidy Retention** to both build wealth and preserve long-term affordability.
- Option 2: **Shared Appreciation Mortgage** to keep families in their homes.

# Homeownership Subsidy Performance Comparison

	Traditional Deferred Loan	Subsidy Retention
<i>Initial Sale of \$185,000 home</i>		
Total Homebuyer Cost	\$185,000	\$128,000
Public Subsidy	50,000	57,000
Buyer Gain at Sale (yr 7)	48,123	44,957
<i>Resale in Year 7 (Buyer #2)</i>		
Total Homebuyer Cost	\$235,372	\$168,203
Additional Public Subsidy	30,000	0
Buyer Gain at Sale (yr. 14)	60,056	48,411
<i>Resale in Year 14 (Buyer #3)</i>		
Total Homebuyer Cost	\$299,458	\$201,527
Additional Public subsidy	40,000	0
Total Subsidy to keep affordable for 14 years	\$120,000	\$57,000

# Assumptions

- Affordable at 80% of U.S. Median for 2007
- 2.6% annual increase in Median Income
- 3.5% annual increase in property value
- 2.0% annual increase in stewardship cost
- 6.0% broker's fee for resale
- 4.0% shared equity administrator's fee at resale
- Average monthly steward fee \$30

# What's the Difference?

## Subsidy Retention

- One-time investment of public funds
- Limits the resale price
- No soft second

## Shared Appreciation Mortgage

- Second mortgage requiring no payment until sale
- At sale, family repays principal plus a share of appreciation

# Subsidy Retention

## Individual Benefits

1. Affordable price
2. Homeowners build wealth

## Community Benefits

1. One-time subsidy creates unit that remains affordable
2. Preserves mixed-income character of hot neighborhoods.

# Shared Appreciation Mortgage

## Individual Benefits

1. Keeps families in their home/ affordable
2. Builds individual wealth faster
3. Gives future families a wider choice

## Community Benefits

1. Supports the tax base
2. Better use than subsidy forgiveness or simple recapture.

# When to Use

- **Subsidy Retention:** Properties you want to keep affordable because of a desirable location.
- **Shared Appreciation:** Want to avoid windfall, but you're less interested in long-term affordability of the particular unit.



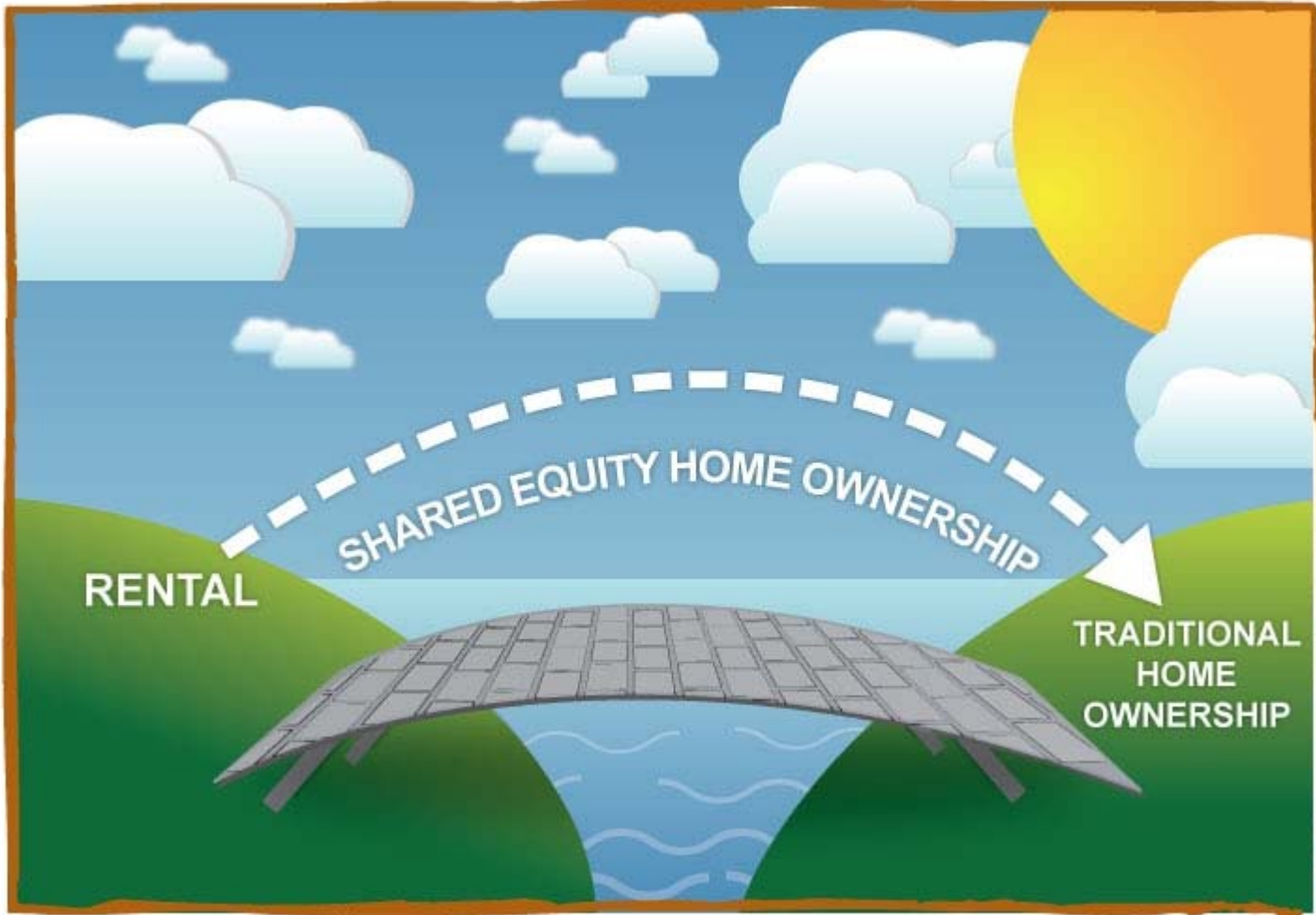
# Minneapolis Community Land Trust Foreclosure

- \$50,000 Foreclosure sale price (70% of appraised value)
- \$100,000 Rehab cost
- \$150,000 Total costs
- \$140,000 After rehab appraised value
- \$119,000 First mortgage (80% AMI)
- \$5,000 Homebuyer down pymt & closing
- \$30,000 Subsidy

# Shared Equity Homeownership

- Effective
- Durable
- Sustainable



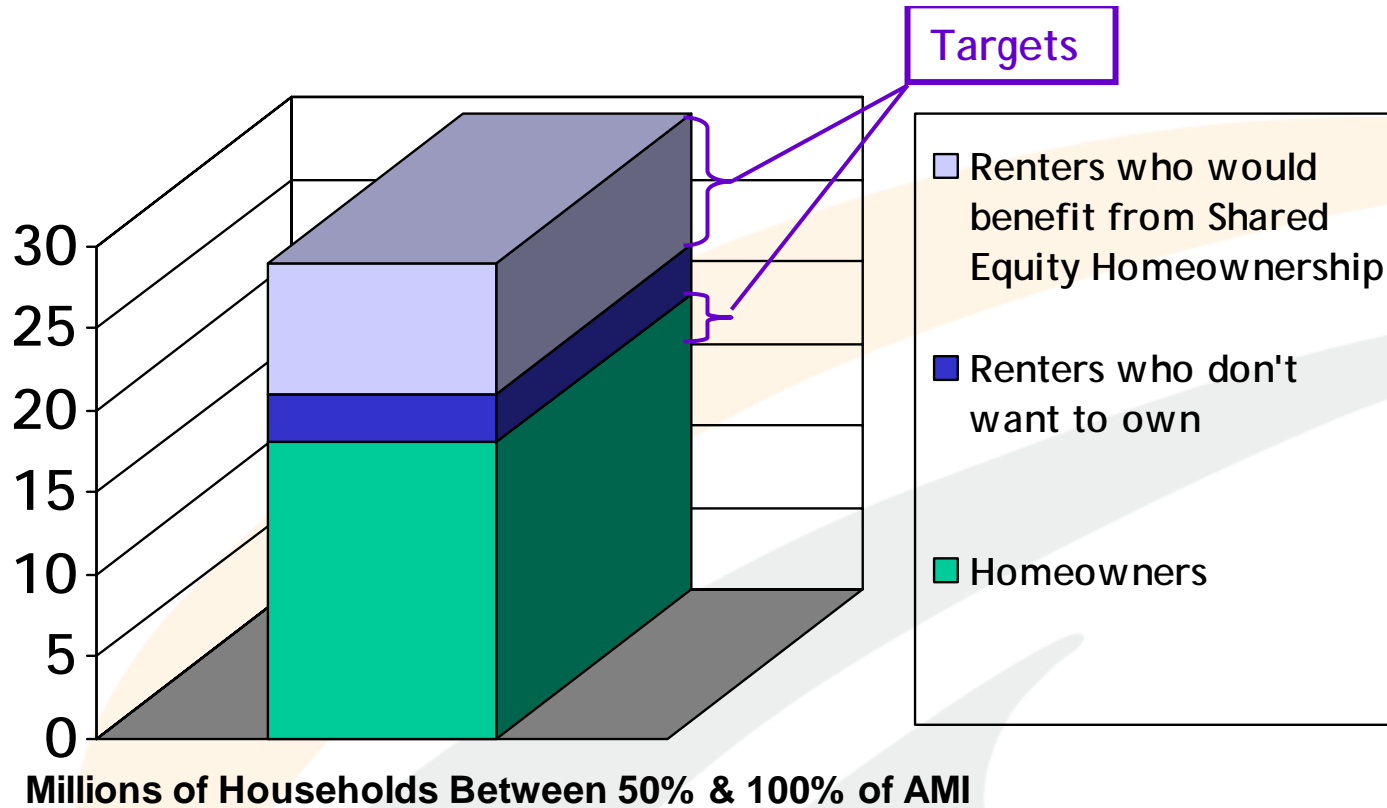


# STEWARDSHIP: Post Purchase Support

- Ensure occupancy
- Promote ongoing maintenance
- Avoid foreclosure



# Targets for Shared Equity Homeownership



# HOME Funds for Ownership

## Now

- 30,000 lost in 5-15 years
- 3 in 10,000 households

## Goal

- 30,000 permanently affordable units
- 285,000 families every year