

POLICY INNOVATION: SHARED EQUITY HOMEOWNERSHIP

Policy innovations are new and creative approaches to addressing social issues – such as how to increase the stock of affordable housing while at the same time creating opportunities to build wealth for low- and moderate-income families – that have the potential to reach thousands or even millions of people. CFED is committed to advancing policy innovations through innovation@cfed. Visit <http://innovation.cfed.org> to learn more.

OVERVIEW

Shared equity homeownership is a rapidly growing housing strategy in which a government or nonprofit agency acts as a co-investor with a new homebuyer, investing substantial public funds to reduce homeownership costs. In return for public support, homebuyers agree to limit their equity appreciation in order to preserve affordability for future lower-income buyers.

While these programs restrict the extent to which a family can profit from housing price increases, they offer significant wealth creation opportunities for families otherwise priced out of homeownership and a stepping-stone between rental housing and homeownership.¹ Whereas renters earn no equity and traditional homeowners earn unlimited – but somewhat unpredictable – equity, shared equity owners earn predictable – but limited – equity. Because affordability is preserved, today's public investment contributes to a growing portfolio of homes that offer this safe wealth-building opportunity to one generation of individuals and families after another.

WHAT STATES CAN DO

There are hundreds of shared equity homeownership programs operating under different names throughout the United States. For the most part, these programs have been initiated by local governments or community-based organizations. A few states, however, have taken leadership in encouraging local homeownership programs to preserve long-term affordability. They have done so by removing barriers to make it easier for local programs to succeed; by incorporating long-term affordability requirements into state homeownership subsidy programs; and by developing systems to ensure that local shared equity programs are well managed, adequately staffed and well understood by homebuyers.

ELEMENTS OF A STRONG POLICY

CFED asserts that effective state shared equity homeownership policies should include the following features:

- **Remove barriers to long-term affordability.** Most states offer a range of programs designed to assist lower-income homebuyers. Most of these programs can work just as well for buyers of shared equity homes as for other buyers. However, some must be modified to

1 In one study, 70% of homeowners were able to buy market-priced homes without assistance after selling their shared equity units. See: *Does the CLT Model Deliver on its Promises*, Burlington Community Land Trust, 2004.

specifically allow shared equity buyers to access them. For example, state housing finance agencies typically offer mortgages financed with tax-exempt bonds to income-eligible homeowners. States that want to encourage local shared equity programs often must revise program guidelines to allow buyers of shared equity homes to access these mortgages and must develop policies to ensure that local affordable housing restrictions do not prevent mortgage lenders from enforcing their rights in foreclosure.

Another barrier to shared equity homeownership can be property tax rules. When homes are sold at below-market prices with lasting price restrictions, local tax assessors are often unsure how to calculate property taxes. Inconsistent or unfair tax treatment of these homes can make them much harder to build and sell. States should develop clear guidelines to ensure price-restricted homes are assessed in a manner that reflects the impact of resale restrictions.

- **Require long-term affordability in state programs.** States can also incorporate long-term affordability requirements into programs that support the creation of affordable homeownership opportunities. Whether a state is directly providing subsidies through a housing trust fund or other grant program, indirectly providing subsidies through mechanisms such as tax increment financing, or using its regulatory powers to induce private developers to create affordable housing units, states should ensure that publicly supported homes remain affordable for future generations of buyers.
- **Support local stewardship.** Most states do not directly administer and monitor affordable homeownership units over the long term. Instead, they rely on local government agencies and nonprofits to monitor units, support homeowners and manage the resale of assisted units. States can play a key role in supporting the growth of local oversight capacity by clearly outlining stewardship requirements in state programs and regulating and monitoring local agencies.

WHAT STATES HAVE DONE

At least eight state housing finance agencies have policies that allow them to finance buyers of price-restricted homes. Washington's Housing Finance Commission developed downpayment assistance programs specifically for buyers of shared equity homes.

The California Board of Equalization developed guidelines for local tax assessors that clarify that a home's "fair market value" must reflect any restrictions imposed by local governments on the use of the property, including affordable housing resale price restrictions.

In 1987, Vermont's legislature created the Vermont Housing and Conservation Trust Fund, funded through a statewide property transfer tax. Since then, the fund has helped create more than 8,700 affordable homes. The trust fund offers low- and moderate-income homebuyers subsidies of up to 20% of the home price or \$40,000. In exchange for assistance, Vermont requires that each home be maintained as affordable housing in perpetuity.

New Jersey requires all jurisdictions to ensure that affordable housing units are created along with new market-rate housing. The state created Uniform Housing Affordability Controls to ensure that units are kept affordable for at least 30 years. The state requires each jurisdiction to designate an Affordable Housing Administrator and provides a standard job description for the position, which can be filled by either a local government employee or an outside contractor.

For more information on Shared Equity Homeownership and how states can support it, visit www.HomesThatLast.org.

For more on the 2009-2010 Assets & Opportunity Scorecard – CFED's signature research on wealth, poverty and the financial security of American families – visit <http://scorecard.cfed.org>.

CFED thanks Rick Jacobus for authoring this brief.