

# International Examples of Affordable Homeownership

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# Executive Summary

Canada has a solid homeownership rate which has not been under threat until recently. Historically low interest rates, societal belief in the value of homeownership and an aging demographic all contribute to Canada's steady homeownership rate. What's changing is that government is faced with a potential scenario where even moderate-income households may not be able to afford to buy soon – situations that have existed in both the United Kingdom and Australia for several years. Making homeownership accessible to households is the crux of matter.

The private market is generally seen as the vehicle to deliver ownership options into the housing system in Canada. If house prices rise and ownership continue to be more and more unaffordable for the average household, the private market does not have the tools or the interest to provide products for households needing affordable homeownership options. The question is, what happens in countries and markets where government already plays a guiding role in supporting differing programs or supports that encourage or retain homeownership?

In the United Kingdom, government sets overall direction and tenders out program funding to mature, successful non-profit housing associations. This report looks at three case studies. Shared Ownership Plus is a program variation offered by Thames Valley Housing under the government Help to Buy program. Rent to Buy is a program offered by government which links to shared ownership programs. Support for Mortgage Interest is a UK-government funded program intended to retain homeownership by offering grants for qualifying homeowners.

In Australia, the conditions are drastically different. A small geographically dispersed population has led to the creation of vibrant, effective and innovative state-backed government financial institutions offering unique competitive homeownership loan products. Key Start is a program run on behalf of the West Australian government by a private sector company. Home Start and HomeBuild Access are government corporations that operate on commercial terms and assist Australians to become homeowners.

The United States relies on non-profit entities assisted by supportive legislation. Community Development Financial Institutions (CDFIs) flourish under federal government legislation. Homewise is a creative New Mexico-based CDFI offering unique partnerships to create ownership opportunities for qualifying workers. Framework® is a social enterprise homebuyer education module for members of the Housing Partnership Network. Cornerstone Homeownership Innovation Program is an initiative of Capital Impact Partners, a CDFI looking to provide capacity building for high-performing affordable homeownership non-profits. Champlain Housing Trust is a Vermont-based land trust which preserves long term affordable homeownership through the largest portfolio of limited shared equity units in community land trusts in the US.

A summary of the tools used by each of the 10 case studies is presented in the following table:

	Tool			
	Government funding	Government Legislation	Pricing and Financing	Capacity Building
<b>Non-Profit Sector</b>				
Shared Ownership Plus (TVH) Framework	x	x	x	x
Champlain Housing Trust	x		x	x
<b>Government programs</b>				
Rent to Buy	x	x	x	
Support for Mortgage Interest	x		x	
<b>Government-backed financial institutions</b>				
Keystart		x	x	x
HomeStart		x	x	x
Home Build Access		x	x	x
<b>Financial Institutions</b>				
Cornerstone Homeownership Innovation Partnership				x
Homewise		x	x	x

The 10 case studies operate in different markets and contexts with differing supports. It is important to understand that all ten examples are products intended as a specific response to address the issues facing that country. The following table breaks down the case studies by comparing the program focus.

	Program focus			
	Entry level	Homeowners hip Retention	Homebuyer education	Organizational support
<b>Non-Profit Sector</b>				
Shared Ownership Plus (TVH) Framework	x	x		
Champlain Housing Trust	x	x	x	
<b>Government programs</b>				
Rent to Buy	x	x		
Support for Mortgage Interest		x		
<b>Government-backed financial institutions</b>				
Keystart	x	x		
HomeStart	x	x		
Home Build Access	x	x		
<b>Financial Institutions</b>				
Cornerstone Homeownership Innovation Partnership				x
Homewise	x	x	x	

This research project builds on BC Housing's 2014 report on affordable homeownership programs in Canada and provides insight on ten affordable homeownership programs and supports that are operating in the United Kingdom, Australia and the United States. It further explores program tools and provides suggestions on how the tools might work in Canada.

The case studies demonstrate that when government offers a guiding role or provides an environment which allows mission-oriented homeownership vehicles to flourish, successful programs are the result.

# 1. Introduction

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Homeownership is often seen as a life goal on the part of many Canadians. An owned home provides a household with economic, social, and financial benefits that spread to other parts of one's life. Assumptions about its benefits underpin many national, provincial and municipal policy decisions, not just housing ones. Canada has generally had supportive government programs and policies which have promoted and sustained homeownership over time. Homeownership is just one option available in the housing system – albeit the one where the greatest proportion of Canadians are housed.

In 2014, BC Housing conducted a review of affordable homeownership programs operating in Canada.<sup>1</sup> The review included a discussion and comparison of tools used in Canada. The tools are not used in isolation from each other instead they work in concert depending on the jurisdiction and the organization involved. All of the interventions rely on support from government either in the form of progressive policies or program funding. The key program tools identified are free land, land use planning, development reform, pricing and financing and capacity building.

This research project builds on BC Housing's 2014 report and provide insight on affordable homeownership programs and supports that are operating in other countries. It further explores key program tools and provides suggestions on how the tools might work in Canada to provide similar affordable homeownership options.

## Scope

This research study has been conducted by the Housing Services Corporation (HSC) in a partnership with BC Housing. The primary purpose is to provide a review of international examples of affordable ownership programs. Ten case studies have been conducted that are currently supporting access to affordable homeownership. They were chosen based on an internet scan and are as follows:

1. Shared Ownership Plus (UK)
2. Support for Mortgage Interest (UK)
3. Rent to Buy (UK)
4. Key Start (Australia)
5. Home Start Finance (Australia)
6. HomeBuild Access (Australia)
7. Framework® (US)
8. Cornerstone Homeownership Innovation Program (US)
9. Homewise (US)
10. Champlain Housing Trust (US)

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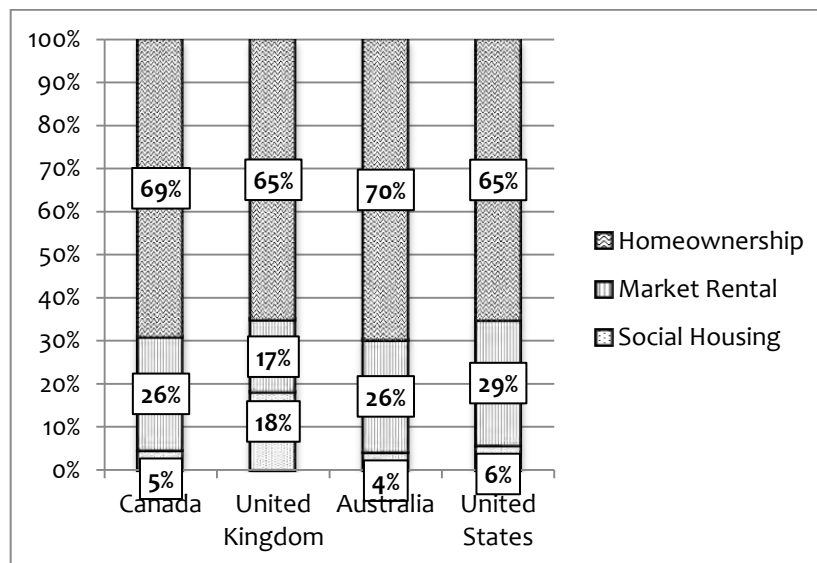
<sup>1</sup> "A Summary of Select Affordable Homeownership Programs in Canada", Cooper Planning and Development Consultants, 2014.

## 2.Homeownership in Context

Over 9.2 million households in Canada are homeowners or about 69% of the total. Another 25% live in private rental housing<sup>2</sup> and the remainder live in social and affordable housing that comprises about 4-5% of the total. Canada's homeownership rate has increased over time from about 60% in 1971 to 69% in 2012. There are reasons for the growth, which are multifaceted: an aging demographic, increasingly smaller unit sizes in condominium developments and a climate of very low interest rates have all contributed to a rising homeownership rates.

These ratios are not unlike those in Australia, the United States and the United Kingdom.

Table 1: Comparative Housing Rates



Both Australia and the UK are experiencing unprecedented and skyrocketing house prices. The median house price in Sydney, Australia as of November 2014 is now over \$1 million AUD<sup>3</sup> (or roughly the same in Canadian dollars). In London, England, a household must be earning a minimum of £100,000 per year, just to qualify for a typical mortgage<sup>4</sup> (roughly \$175,000 CAD). While there are house price variations in both countries, the staggering cost of homeownership has driven governments in both countries to assess what it could be doing to ensure continued high rates of homeownership.

Canada, by contrast, is still relatively affordable. The "10<sup>th</sup> Annual Demographia International Housing Affordability Survey: 2014 Ratings for Metropolitan Markets" indicates that Canada's rating

<sup>2</sup> <http://www.statcan.gc.ca/daily-quotidien/130911/dq130911b-eng.htm>

<sup>3</sup> Retrieved from: <http://www.smh.com.au/business/property/median-asking-price-for-sydney-houses-tops-1-million-20141112-1110pm.html>

<sup>4</sup> Retrieved from: <http://www.theguardian.com/money/2014/oct/14/house-prices-london-surg-ing-mortgage>

is 3.9. While slightly higher than the average of 3.7, Canada is still nowhere as unaffordable as Australia and the UK. Both countries have ratings of 5.5 and 4.9 respectively. The US is more affordable with a rating of 3.4. None however, come anywhere close to Hong Kong where the rating is 14.9.<sup>5</sup>

Until recently, Canada had relatively affordable housing. There was little need to intervene in the housing market to create interventions in support of affordable homeownership because the private market was able to manage the demands of the market with minimal government intervention.

Canada is facing challenges – particularly in large urban centres like Vancouver and Toronto. Soon Calgary and Montreal might be in a similar situation. Homeownership is increasingly moving out of reach of even moderate-income households. The Demographia study notes, “The future for the household standard of living in Canada could be grim.”<sup>6</sup>

Homeownership in Canada is primarily viewed as a household’s choice and government leaves it up to the household to determine how to finance and purchase a home. Most of Canada’s lenders offer home-buying information websites, tips and services but there are no education standards that lenders must meet in educating potential homeowners. They do not target products, guides or apps to potential homebuyers who have low or moderate incomes. CMHC, for example, has developed a step-by-step guide. They also offer worksheets, checklists and a mobile app<sup>7</sup>. The need for additional support or counselling on the part of potential homebuyers has not occurred in Canada likely because Canadians tend to view housing counselling as part of the larger issue of financial literacy. Products and services for financial literacy are not provided or funded through existing housing agencies. Instead, programs and services such as credit counselling and accreditation occur through organizations like the Canadian Association of Credit Counselling Services and Prosper Canada, which is charity devoted to improving financial literacy in Canada.

The private market is generally seen as the vehicle to deliver ownership options into the housing system in Canada. If house prices rise and ownership continues to be more and more unaffordable for the average household, the private market does not have the tools or the interest to provide products for households looking for affordable homeownership options. The question is, what happens in markets where government already plays a guiding role in supporting renting and buying policies that support households looking to own a more affordable home? What are some different ways of promoting homeownership which are not based solely on government program funding?

The next section presents examples of innovations in affordable homeownership from the United Kingdom, Australia and the United States. In each of these cases, government offers a supporting or guiding role or an environment which allows mission-oriented homeownership vehicles to flourish.

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<sup>5</sup> Retrieved from: <http://www.demographia.com/dhi.pdf>, page 13

<sup>6</sup> Retrieved from: <http://www.demographia.com/dhi.pdf>, page 27.

<sup>7</sup> View at: <https://www.cmhc-schl.gc.ca/en/>



## 3. Case Studies

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Important lessons can be learned from affordable ownership programs or strategies that exist in other countries. Although there are many possible programs that can be explored, this next section provides background on ten specific case studies:

1. Shared Ownership Plus (UK)
2. Support for Mortgage Interest (UK)
3. Rent to Buy (UK)
4. Key Start (Australia)
5. Home Start Finance (Australia)
6. HomeBuild Access (Australia)
7. Framework® (US)
8. Cornerstone Homeownership Innovation Program (US)
9. Homewise (US)
10. Champlain Housing Trust (US)

### 3.1 Shared Ownership Plus (UK)

In October 2014, Thames Valley Housing (TVH), a medium-sized registered housing association operating in the southwest of London won an “Innovation in Leasehold Management” award from the National Leasehold Conference for its new Shared Ownership PLUS program<sup>8</sup>. Shared Ownership PLUS was developed after undertaking a research project with the University of Cambridge. It builds upon traditional shared ownership programs available in the United Kingdom to qualifying buyers. Current government branding refers to these programs as “Help to Buy” and “Help to Buy – equity loans”.<sup>9</sup> Shared ownership is only available through housing associations.

Under a standard shared ownership arrangement, a qualifying buyer buys a share in a property (generally between 25% and 75%) and pays rent on the share they don’t own. Given the legislation in place, the “shared owner” is in fact, just a renter with slightly more equity than a regular renter. Shared owners also pay a service charge and are responsible for the usual costs of running a home. When a shared owner wants to buy additional shares (this is called staircasing), the minimum they are able to buy is 10% of the property’s current market value. Each time they buy additional shares, they must also pay a lawyer, pay to have their property re-appraised and in some situations, may have to pay a portion of the land transfer tax (referred to as stamp duty). All of these additional costs mean that the qualifying buyers must have a good source of income to not only purchase additional shares but also pay for the additional costs.

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<sup>8</sup> Retrieved from: <http://www.tvha.co.uk/2014/10/24/thames-valley-housing-wins-award-for-innovation-in-home-ownership-management/>

<sup>9</sup> Retrieved from: <https://www.gov.uk/guidance/capital-funding-guide/1-help-to-buy-shared-ownership>

Housing associations can also vary the size of the equity shares to be purchased, although the initial share must not be less than 25% of the equity in the dwelling, the lease must provide that the leaseholder can staircase to 100%, and the final staircase to full ownership must be at least 10%.<sup>10</sup>

A shared owner has monthly costs that include a mortgage amount to a lender, a rent amount to the landlord and a service charge to the landlord. Shared owners are also fully responsible for maintenance and repairs, contents insurance, property taxes and reserve fund contributions, where applicable.

With Shared Ownership PLUS, TVH has made it simpler and removed the extra costs associated with staircasing<sup>11</sup>. Shared Ownership PLUS is an optional agreement that doesn't affect the tenant's lease. This program allows the tenant to buy an extra 1% of their home's market value each year at a predetermined price. In the first year, the price paid is 1% of the property's full market value. There is a fixed price increase of 3% every year after that and TVH confirms the price of the additional share each year. Tenants are able to continue in the program for up to 15 years as long as their share doesn't exceed 79%. After 15 years, the home reverts back into the regular Shared Ownership program. Restrictions on the maximum amount of shares possible is due to the desire to retain shared ownership units for other potential shared owners in the event of a sale.

TVH is responsible for building and selling all units in their shared ownership schemes. Their 2012-2015 plan includes building 200 shared ownership units. They are also responsible for re-selling shared ownership units.

### 3.1.1 In the Toolbox

Shared Ownership PLUS is a variation of a shared ownership program that is widely available from housing associations in the UK.<sup>12</sup> The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"><li>• Government Funding:<ul style="list-style-type: none"><li>○ Grant program funding allocated through a tendering process. Successful bidders receive funding to build new homes under government criteria</li><li>○ Linked with Rent to Buy program</li></ul></li><li>• Pricing and Financing:<ul style="list-style-type: none"><li>○ Buyer pays a mortgage, rent, service charges and is responsible for repairs and maintenance, contents insurance, utilities and taxes. In apartment settings, buyers also pay into a reserve fund (in the UK, this is called a "sinking fund")</li><li>○ Maximum house prices may apply</li></ul></li></ul>

<sup>10</sup> page 12, "Shared Ownership: Joint Guidance for England", Homes and Communities Agency, Council of Mortgage Lenders and National Housing Federation, 2010

<sup>11</sup> Staircasing refers to a situation where a shared owner buys additional shares in its home. Staircasing is an incremental method of increasing the percentage of ownership in a property. There are typically restrictions on the number of "stairs" (usually 3 stairs are allowed) an owner can use to get to 100% ownership.

<sup>12</sup> Retrieved from: [http://tvhsales.co.uk/learning/wp-content/uploads/2013/04/Thames-Valley-Shared-owners-info-pack\\_V4.pdf](http://tvhsales.co.uk/learning/wp-content/uploads/2013/04/Thames-Valley-Shared-owners-info-pack_V4.pdf)

- Eligible for home warranties when property is new construction
- Owners buy shares of property in increments that they can afford
- Legal arrangements:
  - Properties are leasehold until the shared owner owns 100%. However, housing associations try to limit staircasing. They typically retain 15% or more ownership in most properties as a way to ensure availability of shared ownership units for future shared owner buyers in the event of a sale. Government also identifies certain areas (e.g. rural areas) as protected so that full ownership is never possible thereby ensuring unit availability for future owners.
  - Leases are typically for 99 years
- Eligibility:
  - Potential buyers typically register through the network of HomeBuy agents across the country who connect buyers with housing associations that have stock available under Shared Ownership schemes<sup>13</sup>
  - Waiting list – priority for new units is given to existing social housing residents and Ministry of Defence personnel, to applicants selected according to local authority priority ranking and finally by other buyers who qualify
  - Qualified buyers must earn less than £60,000 a year
  - Buyers are usually only allowed to purchase properties that have one bedroom more than what they need (eg. A couple could buy a 1 or a 2-bedroom unit but not a 3 bedroom unit)
  - Buyers must be employed or must demonstrate sufficient income
  - First time home buyers are targeted though some existing homeowners may apply
- Other:
  - Special programs - Older Persons Shared Ownership (OPSO), Home Ownership for long-term disability (HOLD) and programs in certain rural and protected areas
  - Downward or reverse staircasing is also possible and best practice guidelines exist on how to allow shared owners to retrieve their equity due to mortgage difficulties or to undertake needed capital repairs while still living in their home.

### 3.1.2 Success Factors

The following factors have led to the success of Shared Ownership Plus:

- Government grant program tendered out to qualifying housing associations
- Sophisticated housing associations with solid experience in their local market
- Allows shared owners to move closer to full homeownership by allowing smaller increments of shares to be purchased

### 3.1.3 Adapting to Canada

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<sup>13</sup> Retrieved from: <http://www.helptobuy.org.uk/home>

Shared ownership is relatively unknown in Canada but there are several areas that would need special consideration if it were to be adopted here. Shared owners in the UK are still renters under the law. In Canada, each province maintains its own legislation covering renters. Adaptations to this legislation may be necessary to incorporate the concept of a shared owner. Annual rent increases may also need to apply to shared owners and the provincial tribunal governing disputes may also need to be involved. Leases would need to be adapted that would cover shared owner arrangements. Interactions with local waiting lists would also need to be considered – particularly in Ontario where common waiting lists governing municipal boundaries exist.

Most importantly, banks would need to be able to lend to shared owners. This involves them understanding their risks and potential recourse in the event of mortgage default. In England, shared ownership programs are not eligible for mortgage guarantees. In adapting to Canada, this would suggest that the full cost of potential mortgage default would have to be borne by the lender.

Questions exist about land transfer tax, eligibility for Canada's Home Buyer's Plan and capital gains on sales. Recording shared ownership assets and liabilities on a housing provider's balance sheet will also need to be determined. Audit firms and internal financial systems may need to be adapted.

## 3.2 Support for Mortgage Interest (UK)

Support for Mortgage Interest (SMI) is a government program in the UK available to claimants of certain means-tested benefits for people not in full-time work. It has been available in one form or another since the 1980's<sup>14</sup>. The intent of this program is to alleviate financial pressures that lower-income homeowners have from high mortgage interest costs. Around 230,000 households currently receive SMI. Expenditure in 2013-14 is forecast at £359 million.<sup>15</sup>

The program is available through lenders only. Government calculates interest payments based on a standard rate, not the actual mortgage interest rate. This means that not all of a claimant's interest may be covered. If the claimant's interest rate is at or below the standard rate, it will be covered. Some homeowners may have actual interest rates that are lower than the standard rate used to calculate SMI payments. This means they receive more SMI than required to meet the payments due to their lender. These payments can only be credited to their mortgage account<sup>16</sup>. If the claimant's interest rate is above the standard rate, they are responsible for the difference between the standard rate and their mortgage interest rate. Government makes payments directly to the claimant's lender.

Lenders manage this grant program and receive payments directly from government. Government calculates the charges and grants on behalf of the claimants.

### 3.2.1 In the Toolbox

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<sup>14</sup> Retrieved from: <https://www.gov.uk/support-for-mortgage-interest/overview>

<sup>15</sup> Retrieved from: <http://www.parliament.uk/business/publications/research/briefing-papers/SN06618/support-for-mortgage-interest-scheme>

<sup>16</sup> Retrieved from: <http://www.nidirect.gov.uk/getting-help-to-make-your-mortgage-interest-payments>

SMI is a government grant program that is intended to ensure homeownership retention during economic downturns. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"><li>• Government Funding:<ul style="list-style-type: none"><li>○ Program funding comes from government</li><li>○ Criteria set by government and administered by lenders:<ul style="list-style-type: none"><li>▪ Loan value on the size of the mortgage on which interest payments are based is capped at £200,000 for job-seekers or £100,000 for pensioners</li><li>▪ Interest payment reductions based on a standard interest rate (currently at 3.63%)</li></ul></li></ul></li><li>• Eligibility:<ul style="list-style-type: none"><li>○ Homeowners on 1 of 4 government assistance programs, currently being replaced by one program called “Universal Credit”.</li><li>○ Waiting period of 13 weeks except for pensioners where there is no waiting period</li><li>○ Job-seekers can only claim the program for a two-year time period</li></ul></li><li>• Other:<ul style="list-style-type: none"><li>○ Program may cover other housing costs but will not cover repayment of the mortgage principal</li><li>○ SMI does not cover mortgage arrears or any insurance policies</li></ul></li></ul>

### 3.2.2 Success Factors

The following factors have led to the success of the SMI program:

- Long standing government grant program administered through external partners (lenders)
- Affordable homeownership retention strategy that is limited to qualifying households
- Caps to limit the benefit

### 3.2.3 Adapting to Canada

SMI is a government grant program that would need to be adopted at the federal, provincial or municipal government level if one or more governments were interested in a mechanism to retain homeownership. SMI has been heavily used in the UK for two reasons, the 2008 financial crisis and subsequent economic downturn as well as the high cost of homeownership in certain parts of the country. Canada weathered the financial crisis well and has not had extremely high costs of homeownership, until recently. The Canadian government may need to consider adopting a similar type of program given rising housing costs in certain markets. An intervention like SMI is helpful in economic downturns.

It would also be necessary for government to develop a relationship with lenders and support agencies in order to successfully administer this type of program.

### 3.3 Rent to Buy (UK)

Rent to Buy is a way to ‘try before you buy’ and helps first time buyers onto the property ladder either to HomeBuy or Shared Ownership. Rent to Buy helps prospective first time buyers who can’t access the housing market currently. This program provides a stepping stone into homeownership. Households who might be eligible to purchase a Shared Ownership property are able to rent that property at less than market rent for a pre-specified period.

Under Rent to Buy, homes are rented around 20% less than the typical market cost of an equivalent home. This allows people to save money while renting. They also often get the advantage of living in a brand new energy-efficient home, and benefitting from services offered by the social landlord. These homes are sometimes sold but sitting tenants have the right of first refusal to buy on a shared ownership basis. Social landlords assess an applicant’s ability to purchase before offering them the opportunity to rent. They also take advantage of Assured Shorthold Tenancy which is the usual form of tenancy agreement used by private landlords in the UK. Registered housing providers can offer different forms of tenancy agreement but the Assured Shorthold Tenancy is the least secure form for the tenant.

At the end of the tenancy agreement, usually 6 or 12 months or possibly up to 5 years, the tenant must either enter the shared ownership ladder or leave the property.

Registered housing providers operate the Rent to Buy program as it was offered through a government suite of programs. The ongoing administration of the Rent to Buy program is managed by the housing providers themselves.

Rent to Buy was not on offer from the UK government through the 2011-15 Affordable Homes Programme but properties were available for re-renting. In September 2014, the UK government released a prospectus for housing associations to bid on a £200 million for delivery of the Rent to Buy program outside of London. Winning organizations will be notified in early 2015.

#### 3.3.1 In the Toolbox

Rent to Buy is a government program that links with shared ownership schemes and is intended to provide qualifying renters with a limited time frame during which they pay a reduced rent and are able to save more money for a downpayment. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"><li>• Government involvement:<ul style="list-style-type: none"><li>○ Grant program funding allocated through a tendering process. Successful bidders receive funding to build new home under government criteria</li><li>○ First time home buyers are targeted though some existing homeowners may apply</li><li>○ Linked with shared ownership</li></ul></li><li>• Pricing and Financing:</li></ul>

- Applicant rents homes from a housing association for a limited term at a reduced rental rate
- The renter saves money for a downpayment into the shared ownership program
- At the end of the term, the renter enters the shared ownership property or leaves the unit.
- Eligibility:
  - Potential applicants typically register through a HomeBuy agent
  - Housing associations must rely on the local authority waiting list. Priority for new units is given to existing social housing residents and Ministry of Defence personnel, to applicants selected according to local authority priority ranking and finally by other buyers who qualify
  - Qualified buyers must earn less than £60,000 a year
  - Buyers are only allowed to purchase properties that have one bedroom more than what they need (eg. A couple could buy a 1 or a 2-bedroom unit but not a 3 bedroom unit)
  - Buyers must be employed or must demonstrate sufficient income
- Legal arrangements:
  - Properties are leasehold until the shared owner owns 100%
  - Leases are typically for 99 years
- Other:
  - Housing association offers vary widely and there are many unique variations of the Rent to Buy program across the UK

### 3.3.2 Success Factors

The following factors have led to the success of Rent to Buy:

- Government grant program tendered out to qualifying housing associations according to specific criteria.
- Sophisticated housing associations with solid experience in their local market
- Link with shared ownership program which provides housing association with movement of clients through the system.

### 3.3.3 Adapting to Canada

The Rent to Buy program is closely linked with the Shared Ownership program so many of the same considerations would apply. One of the downsides of the Rent to Buy program is that if a renter enters into a rent to buy arrangement and then the price of the home rises substantially, the renter may no longer be able to afford the property when the agreed-upon term for the tenancy is finished. The renter may have to leave a property they thought would be their home.

## 3.4 Keystart Home Loans (Australia)

Keystart Home Loans (Keystart) is an initiative of the West Australian (WA) Government, established

in 1989 and wholly owned by the Department of Housing. Since inception, Keystart has helped over 85,000 Western Australians achieve homeownership. Keystart is available to all West Australians purchasing an owner occupied property in Western Australia who meets their criteria<sup>17</sup>. The program was introduced to service the needs of those whose incomes were too high to be eligible for public housing, and too low to obtain bank financing.

Keystart is owned by the state and dependent on the state's credit rating and guarantee. The program is however, administered by a private sector service provider, which won a competitive tender. The institutional configuration and operational mechanics of the Keystart program reflect a supportive public sector role, together with a private sector contribution in terms of promotion, implementation and finance. Keystart is an anchor for public and private land development activities, which attract private corporate investment, together with individual savings and mortgage investment.<sup>18</sup>

The Keystart program is not intended to be a long-term solution for every client. Clients are free to refinance to a lender that offers bundled financial solutions that Keystart does not offer (such as credit cards or financial planning services) or other solutions. Almost 80% of former clients have transitioned to a private lender.

Keystart has a quality loan-book with a very low default rate consistently between 0.25% and 0.5%. No subsidies are provided to Keystart and has not required ongoing financial assistance. Surpluses are returned to government in the form of a dividend, and the state government uses those funds to fulfil its social housing objectives. From 2009 to 2014, Keystart returned \$300 million.<sup>19</sup>

### 3.4.1 In the Toolbox

Keystart is a government-backed program operated by a private sector company to provide innovative mortgage loan products to qualifying buyers. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"><li>• Government involvement:<ul style="list-style-type: none"><li>○ This program operates through a private sector agency on contract with state government. Program relies on government credit rating and guarantees</li><li>○ First time home buyers are also eligible for a First Time Homeowner's grant</li></ul></li><li>• Pricing and Financing:<ul style="list-style-type: none"><li>○ Keystart participants must be able to put down a minimum deposit of 2% of the property purchase price in Metro Perth or up to 10% in other areas. For first homebuyers, the first home owner grant can contribute toward the deposit.</li><li>○ There is no lenders mortgage insurance (LMI) required. LMI is typically required by other lenders if clients fall short of their deposit requirements.</li></ul></li></ul>

<sup>17</sup> Retrieved from: <http://www.keystart.com.au/about-us/how-can-we-help>

<sup>18</sup> Grieve, Shane et al, "Falling through the Net? A risk management model for home ownership support schemes" 2005, pg. 14.

<sup>19</sup> Retrieved from: <http://www.keystart.com.au/about-us/about-us>



- Keystart saves clients between \$8,000 and \$10,000 by charging no LMI
- No ongoing monthly account keeping fees
- Legal arrangements:
  - Standard mortgage agreements
- Eligibility:
  - Applicants must be permanent residents of Western Australia
  - Existing monthly debt repayments must be less than 10% of gross income
  - Property must be used as a principal residence.
  - First time home buyers are targeted though some existing homeowners may apply
  - House purchase price limits:
    - Metro Perth area: \$480,000
    - Regional areas: \$600,000
    - Remote Northwest (Kimberley and Pilbara): \$700,000 to \$850,000
  - Income limits (based on family size and location):
    - Range from \$95,000 in Metro Perth to \$150,000 in remote areas
- Capacity Building
  - Keystart implemented an education program in September 2010 designed to help a growing number of ineligible West Australians (mainly through too much debt) become eligible for a Keystart loan. The program has over 600 participants.
- Other:
  - Keystart offers online tools and calculators to help potential applicants to understand homeownership costs and responsibilities
  - Keystart publishes its full fee schedule for applicants so that they understand the full costs of homeownership upfront
  - Keystart has special programs for aboriginal households, shared ownership, farmers and rural workers
  - A shared equity scheme is also offered

### 3.4.2 Success Factors

The following factors have led to the success of Keystart:

- State government initiative managed through a private sector company that is able to operate competitively in the marketplace
- Very low deposit minimums which allow low and moderate income earners to purchase their own homes
- Reliance on the credit rating and guarantee of state government

### 3.4.3 Adapting to Canada

This model could be adapted to work at a provincial or a municipal level depending on whether the government wanted to assume the risks and liabilities associated with direct lending to homeowners. Canadian governments have been involved in direct lending to homeowners in the past either through Canada Mortgage and Housing Corporation (CMHC) or provincial crown corporations like

the Ontario Mortgage Corporation. Residual loan administration is still active but existing vehicles have not been used for new lending for many years.

In the intervening years since CMHC and other provincial crown corporations were involved in direct lending, public/private sector initiatives have evolved. Keystart represents a good example of this where state government provides policy levers and guarantees and the private sector raises capital in the market and conducts rigorous client screening processes to look for eligible buyers.

### 3.5 HomeStart Finance (Australia)

HomeStart Finance (HomeStart) was created by the South Australian Government in 1989 as a response to high interest rates and a lack of affordable home loan finance options. They provide various types of home loans that offer solutions to the challenges people face when buying a home of their own. It provided loans worth \$265 million to 1,297 households in 2012–2013. Since inception, HomeStart has helped more than 63,500 South Australian households into home ownership.<sup>20</sup>

HomeStart holds a unique position as a financial institution which balances commercial and social objectives. They set their own credit, risk and lending policies, and operate according to the same laws and principles of mainstream lenders. Established as a statutory corporation under state government legislation, HomeStart reports to the Minister for Housing and Urban Development. They help to deliver the state government’s strategic priorities and provide innovative loan products such as the Breakthrough Loan which can help boost borrowing power, without increasing repayments under a shared appreciation arrangement with HomeStart.

HomeStart has approximately 100 employees and only operates in South Australia. Several private sector loan managers are accredited HomeStart lenders (e.g Bank South Australia). An independent network of brokers is also able to offer HomeStart products.

#### 3.5.1 In the Toolbox

HomeStart is a government-backed program operated by a government-owned corporation that operates on a commercial basis providing innovative mortgage loan products to qualifying buyers. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"><li>• Government involvement:<ul style="list-style-type: none"><li>○ HomeStart is a statutory corporation of the state government. Program relies on government credit rating and guarantees</li><li>○ First time home buyers are also eligible for a First Time Homeowner’s grant</li></ul></li><li>• Pricing and Financing:<ul style="list-style-type: none"><li>○ HomeStart offers a suite of loan programs targeted to various client groups including new graduates, existing social housing tenants, seniors, etc. (e.g.</li></ul></li></ul>

<sup>20</sup> Retrieved from: <http://www.homestart.com.au/about-homestart/About/About-us>

- HomeStart offers Seniors Equity Loans which are basically reverse mortgages for qualifying seniors)
- Participants must be able to put down a minimum deposit of 3% of the property purchase price depending on the program. Some program variations require a 5% deposit or more. Home building is also allowed but higher deposits are required.
  - No lenders mortgage insurance (LMI). HomeStart offers a Loan Provision Charge instead which costs a lot less for most customers
  - No ongoing monthly account keeping fees
  - Voluntary repayments are free
  - HomeStart offers variable, fixed or split interest rates. Fixed rates are available for terms of 1-3 years.
- Legal arrangements:
    - Standard mortgage agreements
  - Eligibility:
    - Because HomeStart offers many program variations, each one has different client screening requirements. There may be house purchase price and income restrictions depending on the program.
  - Capacity Building
    - Offers an online educational website program called “MyStart” for potential homeowners<sup>21</sup>
    - HomeStart offers online tools and calculators to help potential applicants to understand homeownership costs and responsibilities
    - HomeStart also offers homebuyer’s seminars
  - Other:
    - HomeStart is also involved in shared equity schemes and will work with the affordable rental housing sector to provide financing through its community lending team

### 3.5.2 Success Factors

The following factors have led to the success of HomeStart:

- State government initiative managed through a government-owned corporation that operates competitively in the marketplace by offering innovative loan products
- Very low deposit minimums which allow low and moderate income earners to purchase their own homes
- Reliance on the credit rating and guarantee of state government

### 3.5.3 Adapting to Canada

Similarly to Keystart, HomeStart operates in a successful public/private sector model which does generate an impact in the homeownership market in South Australia. In adapting to the Canadian context, only a provincial or municipal level of government would have the ability to establish a

<sup>21</sup> See: <http://www.homestart.com.au/MyStart/MyStart>

similar entity – whether as a Crown corporation or a separate classified or non-classified agency. Since the government would be offering guarantees of some form or another, this would have to be carefully considered.

### 3.6 HomeBuild Access (Australia)

HomeBuild Access is the Northern Territory Government's home loan product that helps more Territorians to buy their own home.<sup>22</sup> It commenced in January 2013 and replaced previous homebuyer initiatives. It is operated through TIO (Territory Insurance Office) which is owned by the territorial government but operates on a commercial basis. TIO has a broad mandate encompassing three areas: road safety, community resilience and home ownership. TIO's programs are guaranteed by the territorial government.

#### 3.6.1 In the Toolbox

HomeBuild Access a government-backed program operated by a government-owned corporation that operates on a commercial basis providing innovative mortgage loan products to qualifying buyers. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"><li>• Government involvement:<ul style="list-style-type: none"><li>○ TIO is a statutory corporation of the state government. Program relies on government credit rating and guarantees</li><li>○ The HomeBuild Access programs is meant to work in concert with other government grant programs including :<ul style="list-style-type: none"><li>▪ First Time Home Owner grant</li><li>▪ The Seniors, Pensioners and Carers Concession of \$8,500 is available for qualifying individuals to help them purchase a home by reducing the land transfer tax (stamp duty) that would normally be payable. It is not means tested but related to the purchase price of the house.</li><li>▪ Principal Place of Residence Rebate is available for new construction</li></ul></li></ul></li><li>• Pricing and Financing:<ul style="list-style-type: none"><li>○ HomeBuild Access offers two loan products: a Subsidized Interest Rate Loan and a Low Deposit Loan</li><li>○ No lenders mortgage insurance</li><li>○ No ongoing monthly service fees</li><li>○ Voluntary repayments are free</li><li>○ Up to 35 year terms</li><li>○ No application fees</li></ul></li><li>• Legal arrangements:<ul style="list-style-type: none"><li>○ Standard mortgage agreements</li></ul></li><li>• Eligibility:<ul style="list-style-type: none"><li>○ Participants must be able to put down a minimum deposit of 2% to 2.5% of the</li></ul></li></ul>

<sup>22</sup>Retrieve from: <http://dhcd.nt.gov.au>

- property purchase price depending on the product
  - to be eligible for either of the HomeBuild Access loan products, applicants and their spouses or defacto (common law) partners must:
    - meet residency requirements
    - not purchase/construct a dwelling that exceeds the price limits:
      - \$475,000 for 1-2 bedrooms
      - \$550,000 for 3+ bedrooms
    - have a minimum deposit in relation to the product they are applying for
    - arrange private financing for most of the loan (80% for the Low Deposit Loan)
    - live in the property as your principal place of residence for a minimum of three years after it is purchased / constructed
    - meet income and asset limits for the Subsidized Interest Rate Loan
- Capacity Building
  - TIO and the Northern Territory government offer limited guidance on homeownership instead referring applicants to MoneySmart a program developed by the Australian Securities and Investments Commission<sup>23</sup>

### 3.6.2 Success Factors

The following factors have led to the success of HomeBuild Access:

- Territory government initiative managed through a government-owned corporation that operates competitively in the marketplace by offering innovative loan products
- Very low deposit minimums which allow low and moderate income earners to purchase their own homes
- Reliance on the credit rating and guarantee of territorial government

### 3.6.3 Adapting to Canada

Similarly to Keystart and HomeStart, HomeBuild Access operates in a successful public/private sector model which does generate an impact in the homeownership market in the Northern Territory. In adapting to the Canadian context, only a provincial or municipal level of government would have the ability to establish a similar entity – whether as a Crown corporation or a separate classified or non-classified agency. Since the government would be offering guarantees of some form or another, this would have to be carefully considered.

## 3.7 Framework® (US)

Framework® is an online homeownership education course that enables first-time homebuyers to learn about the purchase process at their own pace, with real-time access to trained professionals. It is a joint venture between the Housing Partnership Network (HPN) and the Minnesota Homeownership Center and offers homebuyers a 9-module online education course.<sup>24</sup>

<sup>23</sup> <https://www.moneysmart.gov.au/managing-your-money/budgeting>

<sup>24</sup> View at: <https://hpn.frameworkhomeownership.org/Default.aspx>

In 2014, Housing and Urban Development (HUD) funded over 300 agencies across the country to a total of \$40 million to provide advice to 1.5 million clients on renting, buying, foreclosures, prevention, reverse mortgages and credit issues. The funding enables the agencies to provide these services for free or at a low cost. HCA's are trained and approved to provide tools to current and prospective homeowners and renters so that they can make responsible choices to address their housing needs in light of their financial situations. The US Government's continued funding of the counselling program is based on numerous internal and academic studies which have consistently proven that housing counselling works.<sup>25</sup>

The Framework on-line education program has grown out of one of HPN's social enterprises, Housing Partnership Counselling. HPN has been a funding intermediary for the federal housing counseling program since 1995. HPN supports its members with a cumulative pass through of more than \$35 million in combined federal HUD Counseling funds, which have enabled the provision of homeownership, foreclosure prevention, renter, homeless and reverse mortgage counseling to over 750,000 families.<sup>26</sup> In recent years since the US foreclosure crisis, housing counselling programs were receiving substantial grant funding from government. In 2013, HUD reduced the grant funding substantially forcing housing counselling agencies to seek alternative and innovative methods to provide needed services to clients seeking them.

HPN's entrepreneurial methods means that they looked for ways to enhance their member's housing counseling work, by developing sustainable business models with reliable revenue sources and new modes of service delivery. Framework has been developed in a climate of reducing government funding and with a social enterprise mindset. Framework is a product that was developed for use by HPN's member organizations and was developed to acknowledge that younger, tech-savvy homebuyers are looking for different ways of accessing information about homeownership. By supporting the online modules, HPN members can use their limited HUD funding more effectively

### 3.7.1 In the Toolbox

Framework is an innovative homebuyer education module offered at a low cost and developed according to industry standards for housing counselling. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"> <li>• Government involvement:               <ul style="list-style-type: none"> <li>○ None</li> </ul> </li> <li>• Pricing and Financing:               <ul style="list-style-type: none"> <li>○ Framework is a 9-module online course offered to potential homebuyers at a low cost of \$75.</li> </ul> </li> <li>• Legal arrangements:               <ul style="list-style-type: none"> <li>○ None</li> </ul> </li> <li>• Eligibility:</li> </ul>

<sup>25</sup> Housing Counselling Works! View at: [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/)

<sup>26</sup> hcc Retrieved from: <https://housingpartnership.net/social-enterprises>

- Potential homebuyers
- Capacity Building
  - Framework® meets the National Industry Standards for Homeownership Education and Counselling, which are a set of standards developed by a committee formed of HUD, national banks, homeownership counselling organizations, consumer services organizations and others focussed on having quality, nationally consistent standards for homeownership education <sup>27</sup>
- Other:
  - Framework® is available in two languages: English and Spanish

### 3.7.2 Success Factors

The following are success factors for Framework:

- Innovative on-line homeowner education model that meets National Industry Standards
- Very low cost for nine modules (\$75)
- Incubated in an intermediary established to support high-performing affordable housing non-profits

### 3.7.3 Adapting to Canada

Framework® would be easily adaptable to a Canadian audience because it is, simply put, a homeownership education module. The terminology, legal descriptions and the language would need to be modified to a Canadian audience, which is not insurmountable as an issue. The challenge to produce or modify a product like Framework would be that Canada has never offered a nation-wide housing or homeownership counselling program in the past.

## 3.8 Cornerstone Homeownership Innovation Partnership (US)

The Cornerstone Partnership is a peer network for homeownership programs that preserve long-term affordability and community stability, helping more people buy homes, maintain those homes and keep them affordable in the future. Cornerstone Partnership is a program of Capital Impact Partners, a Community Development Financial Institution (CDFI), with funding provided by the Ford Foundation. Cornerstone is a diverse coalition of organizations that have come together to establish a set of principles and practices that they hope will become the norm across the country. The members are policymakers and practitioners in housing who believe that the principles and best practices should be widely adopted. Founding partners include Habitat for Humanity, Neighborworks America, Fannie Mae, Freddie Mac, the National Association of Local Housing Finance Agencies (NALHFA), Housing Partnership Network, National Community Land Trust Network and Capital Impact Partners.<sup>28</sup>

<sup>27</sup> Retrieved from: <http://www.homeownershipstandards.com/Home/>

<sup>28</sup> Home.aspx Retrieved from: <http://www.affordableownership.org>

Cornerstone is a free member-based network that currently has nine members. There are benefits to membership which include regular webinars, program assessment tools, program and policy document libraries, customized technical assistance and access to a homeownership program manager IT system, called My HomeKeeper.<sup>29</sup> My Homekeeper was developed by Capital Impact Partners with a grant from the Salesforce.com Foundation.

Cornerstone founded the Cornerstone Homeownership Innovation Program (CHIP) in 2011. The purpose of CHIP is to develop and promote affordable homeownership standards and to measure its social impact, through data collection from HomeKeeper. CHIP is a five-year program and matched with up to \$6 million in funding from the Ford Foundation. All CHIP grants are matched 1:1 on the local level. Over the course of the CHIP, Cornerstone anticipates that over \$16 million will be invested in building the capacity of Shared Equity Housing programs across the country and bringing the model to scale.

During 2012 and early 2013, CHIP grantees received technical assistance, developed stewardship work plans, and participated in training to strengthen their individual programs.<sup>30</sup> Funding is provided by the Social Innovation Fund (SIF) a program of the Corporation for National and Community Service (CNCS) and through private funding provided by the Ford Foundation.

### 3.8.1 In the Toolbox

CHIP is a unique capacity building initiative, incubated in a CDFI, specifically to scale and grow affordable homeownership programs nationally. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"> <li>• Government involvement:               <ul style="list-style-type: none"> <li>○ None</li> </ul> </li> <li>• Pricing and Financing:               <ul style="list-style-type: none"> <li>○ N/A</li> </ul> </li> <li>• Legal arrangements:               <ul style="list-style-type: none"> <li>○ None</li> </ul> </li> <li>• Eligibility:               <ul style="list-style-type: none"> <li>○ CHIP is only available to members of the Cornerstone partnership and is an initiative for affordable homeownership organizations</li> </ul> </li> <li>• Capacity Building               <ul style="list-style-type: none"> <li>○ CHIP is a capacity building program for organizations that offer affordable homeownership programs in the US.</li> </ul> </li> <li>• Other:               <ul style="list-style-type: none"> <li>○ Grant funding comes from philanthropic sources and is incubated in a CDFI.</li> <li>○ CHIP members use the IT system, Homekeeper which has been specifically developed for used by affordable homeownership agencies for use as a central data repository and to tell the story of the collective social impact</li> </ul> </li> </ul>

<sup>29</sup> View at: <http://myhomekeeper.org/>

<sup>30</sup> Retrieved from: <http://affordableownership.org>



- Cornerstone also offers a Certified Technical Assistance Provider certification which provides consultants with access to tools to assist in long term affordable homeownership.

### 3.8.2 Success Factors

The following are success factors for CHIP:

- A network of existing, mature, high-performing affordable homeownership organizations that predominantly work in area of new innovative models for homeownership
- Access to philanthropic contributions that support homeownership
- Incubated in a CDFI that supports high-performing affordable housing non-profits that work in the affordable homeownership territory

### 3.8.3 Adapting to Canada

In adapting a program like Cornerstone Partnership and its CHIP program to Canada, the state of the sector needs to be taken into consideration. Canada has a nascent and limited number of agencies that focus specifically on affordable homeownership products. Outside of Habitat for Humanity and Options for Homes, most organizations that are undertaking affordable homeownership are doing so under the rubric of government funding programs. They tinker with purchase price, income restrictions and asset limits. Municipalities such as Wood Buffalo and Whistler provide affordable ownership because of particular economic circumstances impacting them which do not exist in many other jurisdictions in Canada (e.g. resort communities and the oil-sands industry). Other municipal programs rely on federal grant funding and represent variations on a theme outlined extensively in BC Housing's paper from early 2014 on affordable homeownership.

A leadership development program like Cornerstone could certainly operate in Canada but would need to be established with support from a philanthropic organization or government. Furthermore, there are very few organizations that would qualify to participate given the limited state of affordable homeownership in Canada.

## 3.9 Homewise (US)

Homewise is a multi-service non-profit based in Santa Fe, New Mexico. Founded in 1986 as Neighborhood Services of Santa Fe, Homewise is a CDFI. They offer loan products based on a belief that healthy communities exist through a combination of homeownership, education, healthcare and employment. Their services are built around the interconnection of these areas.<sup>31</sup> They offer loan products, build new homes, provide financial literacy courses and undertake home renovations for qualifying households.

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<sup>31</sup> View at: <https://homewise.org/>

Homewise has helped over 2,850 households become homeowners in northern New Mexico since 1986. Since 2006, Homewise partnered with the local medical centre to help 87 employees to become homeowners. Through its Teacherwise program, over 300 teachers have been assisted. Homewise has also provided jobs to local residents and offered homebuying education classes.

In addition to creative partnerships that have grown out of their mission-focus, Homewise also offers a special financing product which involves an amortizing second mortgage.

Community Development Financial Institutions (CDFI) are financial institutions that have a primary focus of community development, serve a target market, are a financing entity, are non-governmental and are accountable to the community. They primarily provide financial services, loans and similar products in low-income communities. AERIS, an independent non-profit organization, provides ratings of CDFI's.

While CDFI's have been around in one form or another in the US since the 1800's, it wasn't until the US government passed the Community Reinvestment Act (CRA) and the CDFI Fund Act in 1994 that saw the exponential growth of CDFI's. There are currently about 1,250 CDFI's in the US. CDFI's flourish in an environment supported by government legislation, access to a government fund, the CDFI Fund, coalitions and stakeholder organizations. They also often work hand in hand with philanthropic foundations looking to make investments in lower income communities.

### 3.9.1 In the Toolbox

Homewise is a CDFI providing affordable homeownership loan products through local partnerships and with mandatory homebuyer education. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"><li>• Government involvement:<ul style="list-style-type: none"><li>○ Supportive legislation including the CRA and CDFI Fund Acts</li></ul></li><li>• Pricing and Financing:<ul style="list-style-type: none"><li>○ Homewise offers a program called "SuperPrime" financing which combines a 30 year fixed rate first mortgage at 80% loan to value with an amortizing second mortgage provided by Homewise directly.</li></ul></li><li>• Legal arrangements:<ul style="list-style-type: none"><li>○ Standard mortgage agreements</li></ul></li><li>• Eligibility:<ul style="list-style-type: none"><li>○ Homewise operates as a lender that provides a wraparound service. Eligible homebuyers are households that meet the financial tests associated with homeownership.</li></ul></li><li>• Capacity Building<ul style="list-style-type: none"><li>○ Homewise offers mandatory homebuyer education courses as part of their lending.</li></ul></li><li>• Other:<ul style="list-style-type: none"><li>○ Homewise has developed unique partnerships with local organizations to locate potential affordable homebuyers (e.g local medical centre and the</li></ul></li></ul>

- school board)
- Homewise has been prominent in publishing research and reports on the economic and social value of investing in homeownership.<sup>32</sup>

### 3.9.2 Success Factors

The following are success factors for Homewise:

- Strong leadership and administration with a mission-orientation. Each program offering is built on the other - marketing and community outreach, buyer assessment, buyer development, real estate sales and lending. Homewise is able to build its own long term financial viability through its customer's successes
- With their innovative financing program, SuperPrime, which involves Homewise directly, they have built in a self-motivating success factor in the program
- Incubated in a mission-oriented CDFI that has access to capital and integrates homebuyer education into every aspect of its business.

### 3.9.3 Adapting to Canada

Canada has conditions similar to those under which Homewise operates. Although Canada has no CRA or CDFI fund, there are banks, community loan funds and community development corporations which operate similarly to CDFIs. The success of Homewise is due to several factors which would need to be adopted in Canada. Homebuyer counselling needs to be well-integrated into the home purchase process as Homewise has shown through its work that just arming buyers with information does not ensure success. By financing the second mortgage itself, Homewise is an interested party in ensuring proper buyer preparation. If the homebuyer is not able to sustain its payment, Homewise loses. The program allows the buyer to purchase with a down payment smaller than what is typically required by conventional loans while eliminating the high cost of mortgage insurance.

### 3.10 Champlain Housing Trust (US)

Champlain Housing Trust (CHT) was formed in 2006 through the merger of the Burlington Community Land Trust and the Lake Champlain Housing Development Corporation, which had both been operating since the 1980's. CHT operates in Burlington, Vermont and rural areas in northern Vermont. Through a combination of homebuyer education, community land trusts, loan funds and shared equity products, CHT is one of the top-performing innovative affordable homeownership organizations in the US. In 2008, CHT was awarded a World Habitat Award for its work in providing sustainable and affordable homeownership programs for Vermont households.<sup>33</sup>

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<sup>32</sup>“Now is the Time”, 2014.

<sup>33</sup> Retrieved from: <https://www.bshf.org/world-habitat-awards/winners-and-finalists/champlain-housing-trust/>

The community land trust model provides affordable home ownership opportunities for its members who are not able to use conventional house financing methods, enabling them to own their own homes. In addition to owning and managing 1,500 affordable rental homes, CHT makes homeownership possible by providing down-payment grants to qualified buyers. In exchange for the grant, buyers share a portion of the home's increase in value with the next buyer when they sell. In this way, CHT keeps homes affordable forever. There are over 500 homes under CHT's stewardship in this program. In short, CHT combines the land trust model with the shared equity homeownership model.

Typically, a land trust is a locally based non-profit that owns land and property in trust for the benefit of the community. Land trusts guarantee long-term affordability and preservation of housing, they also provide a model for responsible lending to those on low incomes and a successful means of community engagement and decision-making. The most important aspect of CHT's model is that it preserves affordability for future homeowners, which is missing from models like Options for Homes which does not cap resale prices for owners.

CHT is a non-profit tax-exempt corporation that operates with specific geographic areas in Vermont. Similar to other community land trusts (CLTs), any adult who resides within the geographic area deemed by the CLT to be its "community" and who supports the CLT's mission can become a voting member of the CLT by paying annual membership dues. This membership elects the CLT's board of directors.<sup>34</sup> CHT has over 3,500 members from a total community of around 100,000 people.

The 15-person board of CHT conforms to the three-part structure of the classic CLT. One third of the board represents the interests of people who lease land or reside in housing that is managed by CHT. One third represents the interests of people who live in the surrounding "community" who do not reside on CHT's land or in CHT's housing. One third is made up of municipal officials and a regional representative who are presumed to speak for the public interest. Control of CHT's board is diffused and balanced to ensure that all interests are heard but no one interest is predominant.<sup>35</sup>

The Champlain Housing Trust claims that shared equity homeownership is effective in retaining government funding that goes into making their homes affordable in the first place. These subsidies are typically used by CLTs to buy the underlying land, removing a large cost component from the price of purchasing a home.

A 2010 study by the Urban Institute noted that CHT, with its portfolio of 435 units (at the time of the study), had provided ownership opportunities for 683 households since inception. The "subsidy" (i.e. the difference between the initial cost of purchasing the unit and the price paid by the initial buyer of that home) is retained and recycled in the home, allowing another family to purchase the same home at a below-market price. This would not have happened in a direct subsidy-to-homeowner program, under which the recipient could resell his/her home at an unrestricted, market price, pocketing both the subsidy and 100 percent of the appreciation at resale. A program providing grants directly to the homebuyers with no resale restrictions would have been able to serve 233 fewer households than the 683 households served by CHT. Conversely, to serve the same number of households as CHT,

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<sup>34</sup> Davis and Stokes, "Lands in Trust: Homes that Last", 2009, page 10.

<sup>35</sup> same

a direct subsidy-to-homeowner program would also have cost the public much more, a cost differential that increases as resale volume increases.<sup>36</sup>

CHT is a member of Cornerstone and a recipient of CHIP.

### 3.10.1 In the Toolbox

CHT is a Vermont-based non-profit with the largest portfolio of shared equity homeownership units in the US built in a community land trust model and with mandatory homebuyer education. The following table describes the program tools used:

Program Tools
<ul style="list-style-type: none"><li>• Government involvement:<ul style="list-style-type: none"><li>○ CHT relies on grants provided by the municipality, philanthropic organizations, NeighborWorks America, favorable financing from the Vermont Housing Finance Agency, and units acquired at below market prices from private developers through inclusionary zoning</li></ul></li><li>• Pricing and Financing:<ul style="list-style-type: none"><li>○ The CHT approach is a shared equity/limited appreciation model. Resales are permitted and allow homeowners to recoup their original down payment, any equity earned, and the value of pre-approved capital improvements made. In addition, if homes appreciate in value between the time of purchase and the time of resale, their owners are granted 25% of that appreciation.</li><li>○ No sales occur on the open market. Homeowners sell properties back to CHT and CHT then markets the home at no cost to the homeowner, finds a new eligible buyer, and then all three parties sit down to sign a contract.</li><li>○ CHT collects a fee of up to 6 percent of the current appraised value when a home is resold, plus a transaction fee of \$1,000. The remainder of the appreciation remains in the home to preserve affordability. Any fees collected by CHT at resale to cover a portion of its own costs of providing services to its homes and homeowners are added to the price that is charged to the subsequent homebuyer.</li><li>○ The formula to determine what resale price CHT will pay to a departing homeowner = Initial Purchase Price + Homeowner's share of appreciation</li><li>○ The homeowner's share of appreciation is <math>[\text{Initial Purchase Price} \times (\text{Appraisal 2} - \text{Appraisal 1}) / \text{Appraisal 1} \times 25\%]</math></li><li>○ As an example, if an owner buys a single family home for \$100,000 that was appraised at \$200,000 (a 50 percent share of the property's value) and the home appreciates to \$300,000, the owner may sell the home to CHT for \$112,500 which = <math>[\\$100,000 \times (\\$300,000 - \\$200,000) / \\$200,000 \times 25\%]</math></li></ul></li><li>• Legal arrangements:<ul style="list-style-type: none"><li>○ CHT retains ownership of the underlying land and maintains renewable long-term ground leases for twenty years. A new lease is executed and recorded</li></ul></li></ul>

<sup>36</sup> Retrieved from: <http://www.urban.org/uploadedpdf/412243-CHT.pdf>

- every time ownership of a building located on CHT's land changes hands. Lessees pay a fee of \$35 per month for use of the land.
  - CHT retains a right of first refusal to buy any units offered for sale
  - As owner and lessor of the underlying land, CHT has an abiding interest in the homes. CHT has an interest in ensuring owner's maintain their homes and in protecting owner-occupancy. CHT has adequate legal wording in agreements to ensure protection in cases of mortgage default.
- Eligibility:
  - For potential shared equity owners, eligible buyers must:
    - meet income restrictions (HUD Average Market Income limits),
    - have less than \$60,000 assets
    - have completed CHT's Homebuyer Education program and attended a Shared Equity Information meeting
    - Be deemed mortgage ready by a NeighborWorks® Homeownership Center of Vermont and be in a position to afford a mortgage for the property of interest. Have a good credit history.
    - Be able to pay closing costs of \$5,000 to \$8,000
    - Be able to pay CHT's administration fee of \$1,000<sup>37</sup>
- Capacity Building
  - CHT offers mandatory homebuyer education courses
- Other:
  - Like Homewise, CHT has been prominent in publishing research and reports on the economic and social value of its affordable homeownership model<sup>38</sup>
  - CHT also offers home repair loans to qualified households under certain criteria
  - Predatory lending is prevented.
  - Absentee ownership is prohibited.
  - Subletting is strictly regulated.
  - The homeowner is 100% responsible for a decrease in the property's value at the point of resale. While CHT shares in the appreciation of a property, it does not share in its depreciation whether due to market or property conditions. CHT does this as a way to ensure ongoing affordability for future homeowners. This practice also encourages homeowners to stay in their units for longer periods of time as the longer they own their home, the greater the chance it will go up in value.

### 3.10.2 Success Factors

The following are success factors for CHT:

- Strong leadership and administration with a mission-orientation of providing long-term affordable homeownership options in a specific geographic area

<sup>37</sup> Retrieved from: <http://get-a-home.businesscatalyst.com/homes/income-eligibility-sep>

<sup>38</sup> View at: <http://www.getahome.org/learn-more/publications>

- Ability to be flexible and adaptable to changing government programs, municipal directions and philanthropic supports
- Preserves long-term affordability of homes by capping resale prices

### 3.10.3 Adapting to Canada

Community Land Trusts are not unknown in Canada and are split into two types. Rental housing co-op land trusts that exist in Toronto, Vancouver and Montreal. As an example, fourteen rental housing co-operatives comprising 2,350 units were built under subsidized government programs in the 1980's in Toronto and are part of Colandco Co-op Homes, a CLT established by the Co-op Housing Federation of Toronto.<sup>39</sup> The second type are rent-to-own land trusts which exist in Edmonton and Winnipeg.

Most of the land trust initiatives in Canada were active 20 years ago but ran into road blocks in their development. They have never achieved the same level of scale that has happened in the US. CMHC research from 2005 noted that in order to achieve success, Canadian CLT's needed a sustainable business plan, strong leadership and administration, community support, community partnerships, to build in research and evaluation to communicate their value, needed access to national networks with similar entities and need government support. Many of these elements do not exist currently or did exist but no longer do in the Canadian housing sector. Issues that have been encountered in Canadian land trusts were around accessing financing, challenges in CMHC mortgage insurance rules and lack of support for their ongoing development.

Unfortunately, despite their potential, Canadian land trusts have not lived up to the potential offered by their neighbours to the south.

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<sup>39</sup> Retrieved from: [http://publications.gc.ca/collections/collection\\_2011/schl-cmhc/nh18-1-2/NH18-1-2-123-2005-eng.pdf](http://publications.gc.ca/collections/collection_2011/schl-cmhc/nh18-1-2/NH18-1-2-123-2005-eng.pdf)

## 4. Lessons Learned and Tool Comparison

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In examining the ten case studies for affordable homeownership, there are valuable lessons from all of them. The following list provides a synopsis of the lessons learned:

- Incubating in a larger organization provides administrative support and assistance to grow an innovative idea or concept to scale and may be able to allow it to become self sufficient over time (Framework and CHIP)
- Acting as guide or steward allows government to set the standard. Program variations are seen as the norm rather than an aberration. Access to private financing becomes easier (Shared Ownership Plus, Rent To Buy, SMI, CHIP)
- Working in partnership with research entities to evaluate how programs can be modified can create more effective programs (Shared Ownership Plus, CHIP, Homewise and CHT)
- Creating government legislation or tendering for limited government funding allows growth of non-profit entities that can develop their own programming in support of affordable homeownership (Shared Ownership Plus, Rent to Buy, CHT, Homewise)
- Collecting data to demonstrate the social impact of a particular model can be used to make the case to government, philanthropic organizations or to private sector banks to make greater investments in that vehicle (Shared Ownership Plus, CHIP, Homewise, CHT)
- When government sets parameters which must be adhered to but also allows flexibility in the rules to encourage innovation, non-profits with a mission-orientation will do the right thing (Shared Ownership Plus, Rent to Buy, Homewise, CHIP, CHT)
- Philanthropy can play a critical role in supporting innovative ideas to grow to scale (CHIP, CHT)
- Having an organizational mandate that supports affordable homeownership is critical (all)
- When government creates an entity to provide loan products to consumers, public/private sector arrangements can ensure that the entity operates commercially in the private marketplace (Keystart, Homestart and HomeBuild Access)
- Organization has scale and capacity so that it can be flexible and adaptable enough to changing government directions in order to survive and grow (all)
- Models will work in hot markets, if there is a capital source to make the initial acquisition (all)
- Homeownership retention is as important as homeownership formation (SMI, CHT, Homewise)
- Homebuyer education is critical to the success of affordable homeownership for low and moderate income earners (all except SMI).

It is difficult to offer a full comparison of the ten case studies because they are operating under different market conditions and with different supporting pieces of legislation. Their successes and challenges are often a reflection of this. One of the initiatives, CHIP, is not an affordable homeownership program. It is a capacity building initiative for organizations that provide affordable homeownership.



Using a similar matrix that was used developed for BC Housing in early 2014, a summary of the tools used by each of the 10 case studies is presented in the following table:

	Tool			
	Government funding	Government Legislation	Pricing and Financing	Capacity Building
<b>Non-Profit Sector</b>				
Shared Ownership Plus (TVH) Framework	x	x	x	x
Champlain Housing Trust	x		x	x
<b>Government programs</b>				
Rent to Buy	x	x	x	
Support for Mortgage Interest	x		x	
<b>Government-backed financial institutions</b>				
Keystart		x	x	x
HomeStart		x	x	x
Home Build Access		x	x	x
<b>Financial Institutions</b>				
Cornerstone Homeownership Innovation Partnership				x
Homewise		x	x	x

The 10 case studies operate in different markets and contexts with differing supports. It is important to understand that all of these ten examples are products intended as a specific response to address the issues facing that country. The following table breaks down the ten case studies by comparing the program focus.

	Program focus			
	Entry level	Homeowners hip Retention	Homebuyer education	Organizational support
<b>Non-Profit Sector</b>				
Shared Ownership Plus (TVH) Framework	x	x		
Champlain Housing Trust	x	x	x	
<b>Government programs</b>				
Rent to Buy	x	x		
Support for Mortgage Interest		x		
<b>Government-backed financial institutions</b>				
Keystart	x	x		
HomeStart	x	x		
Home Build Access	x	x		
<b>Financial Institutions</b>				
Cornerstone Homeownership Innovation Partnership				x
Homewise	x	x	x	

## 5. Conclusion

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Canada has a solid homeownership rate which has not been under threat until recently. Historically low interest rates, government belief in the value of homeownership and an aging demographic all contribute to Canada's steady housing market. Canada however, has had unique situations occur in different parts of the country which have led to the development of affordable homeownership programs (e.g. Whistler and Wood Buffalo). Canada also has a climate that allows a private sector low-cost developer like Options for Homes to flourish alongside Habitat for Humanity, a charity.

What's changing is that government is faced with a potential scenario where even moderate income households may not be able to afford to buy soon – situations that have existed in both the United Kingdom and Australia for several years. The United States suffered from a homeownership foreclosure crisis which threatened to destabilize the housing market. Lessons from each of these situations can be learned from and adapted to the Canadian context where necessary.

These program offerings have several factors which have contributed to their success which include having organizations with a specific mission orientation and with scale and capacity so that they can be flexible and adaptable enough to changing government directions in order to survive and grow. One of the most important lessons is that homebuyer education is critical to success of affordable homeownership – just handing out information is not enough. Canada's efforts in homebuyer education are nascent in comparison to those on offer in the United States where national standards guide and support organizations working in this territory.

These ten affordable homeownership programs and supports have also occurred without extensive government involvement. Government supports and guides but does not overly dictate. They set parameters but allow innovation to occur naturally. The examples also show that variations of full homeownership can be successfully developed in markets that are severely unaffordable.

In conclusion, this project reviewed ten examples of affordable homeownership programs and supports that are currently working in the United Kingdom, Australia and the United States. In most of these case studies, government offers a supporting role, a guiding role or an environment which allows mission-oriented homeownership vehicles to flourish.

## About BC Housing

BC Housing develops, manages, and administers a wide range of subsidized housing options across the province of British Columbia in Canada. We partner with private and non-profit housing providers, other levels of government, health authorities, and community groups to increase affordable housing options for British Columbians in greatest need. BC Housing also helps bring about improvements in the quality of residential construction in B.C. and helps strengthen consumer protection for buyers of new homes. For more information, visit [www.bchousing.org](http://www.bchousing.org)



## About HSC

Housing Services Corporation is a province-wide, non-profit organization that supports the sustainability and management of Ontario's affordable housing sector. For the past 12 years, HSC has worked hand-in-hand in partnership with landlords, housing providers and municipalities to help develop and maintain safe, affordable and vibrant neighbourhoods. For more information, visit [www.hscorp.ca](http://www.hscorp.ca)

