



PROGRAM

Employer-Assisted Home Ownership: A Sourcebook for Nonprofit Organizations

July 1999

NeighborWorks® America
NeighborWorks® Campaign for Home Ownership



NEIGHBORWORKS® AMERICA,
THE NEIGHBORWORKS® NETWORK AND
THE NEIGHBORWORKS® CAMPAIGN FOR HOME OWNERSHIP

Neighborhood Reinvestment Corporation (dba NeighborWorks® America) was established by an act of Congress in 1978 (Public Law 95-557). A primary objective of the Corporation is to increase the capacity of local community-based organizations to revitalize their communities, particularly by expanding and improving housing opportunities.

These local organizations, known as NeighborWorks® organizations, are independent resident-led nonprofit partnerships that include business leaders and government officials. All together they make up the NeighborWorks® network.

The NeighborWorks® Campaign for Home Ownership is the largest national initiative of its kind: a joint effort by private industry and government working with community-based NeighborWorks® organizations to bring more families into home ownership. NeighborWorks® organizations participating in the campaign use the NeighborWorks® Full-Cycle LendingSM system. Under this system, prepurchase education, innovative loan products and early-intervention delinquency counseling are combined into a system that helps create successful homebuyers who take charge of their neighborhoods as well as their homes.

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INTRODUCTION

In the last few years there has been a significant expansion in employer-assisted home-ownership programs. For a variety of reasons, employers are developing programs to help employees purchase homes. These efforts are important to NeighborWorks® organizations for two reasons. First, they suggest potential new partners for nonprofits in promoting home ownership. Second, nonprofits, with experience in home-ownership counseling and financing, can add substantial value to an employer considering an employer-assisted home-ownership program.

This monograph will begin by looking at some of the factors that motivate employers to develop employer-assisted home-ownership programs. Next, it will provide case studies of several existing programs through a variety of employers, including some that currently involve nonprofits. Finally, this monograph will draw from a successful model developed by Chattanooga Neighborhood Enterprise (CNE), a NeighborWorks® organization, to suggest a possible approach nonprofits might utilize with local employers.

WHY EMPLOYERS ARE CONSIDERING HOME-OWNERSHIP PROGRAMS

According to a 1991 study published by Hewitt and Associates, an employee benefits consulting firm, housing assistance to nonmanagerial employees is likely to be a growth area in the coming decade. While employers spend billions of dollars annually on behalf of top management in the form of relocation assistance, a growing number of employers are also beginning to address the needs of nonmanagerial and hourly workers.

One demographic trend that may influence why employers are developing housing-assistance plans has to do with labor shortages. Reduced population growth in the 1970s has resulted in a decrease in skilled labor. According to a study by the Hudson Institute, a severe lack of skilled labor is one of the major business problems nearly all companies will be facing by the year 2000. Much of this shortage will be for skilled employees who typically earn less than \$35,000 annually. In business surveys, high housing costs were seen by a significant number of companies as a key factor in limiting their business expansion.

A second major demographic trend is also encouraging employer-assisted housing and bringing a new set of actors into the field. As cities continue to lose population, municipal governments are beginning to look at how home-ownership demand can be maintained. Often this effort begins with the government unit looking at its own workforce. In some cases it involves governments working to promote employer-assisted home ownership among major employers. In either case, in an environment of declining housing subsidy, local governments are beginning to look for interventions that require less subsidy and can stimulate home-ownership demand growth.

There are two major reasons why employers are developing home-ownership programs for their employees. The first reason relates to a set of conditions that affect the business and the employee

directly, and the second reason relates to the relationship between the business and the surrounding community.

STABILIZING THE EMPLOYEE BASE

Employers recognize the high costs of recruitment and turnover and see employer-assisted home ownership as a way of retaining existing employees and as a benefit in recruiting new employees. By reducing turnover, employers are reducing the costs associated with turnover — hiring and training costs.

The Hewitt study cites several studies that, while dated, show how costly recruitment has become. One survey conducted by the Employment Management Association indicated that the average amount spent on the recruitment of an exempt-level employee in 1989 was \$7,488; for nonexempt, \$1,529; for hourly, \$672. The study also showed a substantial time lag, an average of 38 days, between when the terminating employee gives notice and the new employee starts work, a factor that invariably affects productivity.

Along with the costs of recruitment are the costs associated with training new employees. The Hewitt study cites an article in *Training* magazine which revealed that the average employee who received formal, employer-sponsored training in 1989 did so at an average cost to the company of \$1,155.

Employer-assisted home ownership can maintain or increase productivity by encouraging home purchases closer to the workplace, thereby reducing time spent in commuting. Long commutes to the workplace from distant but affordable housing reduce worker productivity through lateness, absenteeism and the stress from driving long distances.

Home ownership signifies a new level of achievement and responsibility for families. In theory, it provides motivation to stay employed and advance so that the new status of home ownership can be preserved. Very simply, people will work harder to maintain something they own and this translates into greater productivity in the workplace.

STABILIZING NEIGHBORHOODS

Along with the benefits of reducing costs of turnover and recruitment, some employers are targeting home-ownership efforts to specific geographic areas. For some employers, like hospitals and universities, which have a substantial investment in their physical plant and cannot easily move, developing employer-assisted programs is a way of stabilizing the surrounding community. Hospitals and universities need to attract staff and patients or students, and those efforts are easier when there is a plan in place to revitalize the surrounding neighborhood.

By encouraging home ownership in the surrounding neighborhood among their employees, these institutions are putting in place an important tool that can help stabilize their surroundings.

Employer-assisted home-ownership programs focused in specific neighborhoods can also be powerful tools in developing good relations between the employer and the surrounding communities. This is often an important consideration for urban hospitals and universities, which have real estate expansion needs that are sometimes viewed as threats by local residents. In much the same way, employers need the support of local government for a variety of issues, from city services to zoning changes. By embracing a neighborhood-focused effort to increase home ownership, private employers are contributing to neighborhood revitalization and, in so doing, complementing public actions. Such efforts can be a basis for improving the relationship between employers and government.

THE STRUCTURE OF EMPLOYER-ASSISTED HOME-OWNERSHIP PROGRAMS

Most employer-assisted home-ownership programs involve lowering the entry cost of home ownership to employees by supplementing down payments or reducing closing costs. These are often the major barriers employees face in purchasing homes, and efforts designed by employers to reduce these costs can be effective and relatively simple to administer.

Along with efforts to lower or restructure the financial requirements of home purchase, employers have also attempted a range of interventions from matched savings plans to the actual construction of housing. The structure of an employer-assisted program depends in part on the resources and capacity of the employer, the objective the employer is seeking to meet, and the needs of the employee base.

Savings Plans

One of the simplest ways employers can help employees buy homes is by adding either a withdrawal provision or a loan feature to the company's savings plan. While withdrawals from savings plans are restricted by the Internal Revenue Service, purchase of a primary residence is one of the withdrawal exceptions to these restrictions.

As an alternative to early withdrawal, some savings plans have a loan feature that allows an employee to borrow against his or her account. Employees pay back principal and interest on this loan and repayments are deposited back into their account. One disadvantage to the loan feature is that, in most cases, only half of the employee's vested savings plan balance may be loaned. In certain markets, the net proceeds from this loan may not be sufficient to cover down payment and closing costs. Recognizing this, employers have sometimes developed programs which provide a direct subsidy, either through a loan or a second mortgage, that reduces the amount of up-front money required to buy a house.

Down-Payment Assistance

For modest-income working families, accumulating the cash required for down payment and closing costs is the biggest single obstacle to home ownership. Employers can provide down-payment assistance in several ways: down-payment grants or forgivable loans, second mortgages, or mortgage guarantees.

Down-payment grants and forgivable loans

In this model the employer provides a grant or a loan to the employee which is forgiven over a set period of time if certain requirements are met, for example, continued employment with the company. This model has certain advantages and disadvantages. An advantage is that it is fairly easy for the employer to administer and it can directly lower the entry costs of home ownership for the employee. Disadvantages include the tax ramifications to the employee: the benefits to employees are taxable income, although this will more than likely be offset by the tax benefits that accrue to the employee through home ownership. Another disadvantage is that such an approach requires a cash outlay from employers and may not be feasible if large numbers of employees are expected to participate.

Soft-second down-payment mortgages

Another way employers are helping employees overcome the down payment barrier is by arranging second mortgage loans at below-market rates with supporting lenders. The advantage to this for the employer is that it requires no outlay of cash if a lender is found to make the loan. The negative is that since the loan is made by the lender to the employee there is less incentive for the employee to remain with the company. This kind of arrangement can be attractive to a lender who anticipates a high volume of loans and other banking relationships from a major employer. Without an expectation of volume, lenders may be reluctant to participate, although a consortia of smaller employers could be organized to develop such a program with lenders.

Mortgage guarantee programs

In a mortgage guarantee program the employer agrees to pay all of the lender's losses should a loan default. Because this guarantee substantially reduces the risk to the lender, it can be used to leverage reductions in the amount of down payment required.

There are a number of advantages to this approach. It can lower the amount of down payment required and can eliminate the need for private mortgage insurance, thereby reducing the monthly costs to the borrower. Because the guarantee can become invalid if the employee leaves the company, it provides a substantial incentive for the employee to remain with the employer.

The costs to the employer are directly related to the number of employees who are likely to default. Statistics show that the default rate for the gainfully employed is about 0.5 percent. Using this

statistic an employer could expect one default for every 200 loans. Aside from this potential expense, the employer must also show a contingent liability on its ledgers.

CASE STUDIES

The purpose of these case studies is to illustrate the range of employer-assisted home-ownership models currently in place. For nonprofit organizations, these case studies can be instructive about potential employer partners and how a program can be structured.

Hospitals and Universities

The first set of case studies illustrates approaches hospitals and universities have taken in promoting home ownership among their employees. As major employers, hospitals and universities have an important stake in the health of their surrounding communities. These institutions need to attract quality staff as well as patients or students.

Chattanooga Neighborhood Enterprise Partnership with Memorial Hospital

Chattanooga Neighborhood Enterprise (CNE), a NeighborWorks® organization, partnered with a local nonprofit Catholic hospital to develop a special housing loan program for hospital employees. The hospital wanted to provide its employees with a cost-effective benefit while increasing its community participation activities; CNE wanted access to a new base of customers and low-cost capital for down-payment and closing-cost assistance to help serve this market. The solution for both organizations was to develop a home-ownership program aimed at hospital employees.

The key components of the program follow:

1. The hospital advances \$400 to employees wanting to purchase homes. In neighborhoods where market values average \$50,000-\$75,000, this seemingly small amount can make a difference to the homebuyer.
2. The hospital also invested an initial \$50,000 in a second-mortgage loan fund and subsequently invested a second \$50,000. This money is invested with CNE in an account that yields between 3 percent and 3⁷/₈ percent. CNE approves and services the loans to employees, and provides monthly reports to the hospital. Loans are used to supplement down payments and to cover closing costs. While there are no income guidelines that restrict access to these funds, maximum loan amounts vary based on income. For buyers at less than 50 percent of median income, the maximum loan is \$7,500; for buyers in the 50- to 80-percent range, the maximum is \$5,000; for buyers over 80 percent, the limit is \$2,500. The hospital also made a grant of \$5,000 to CNE to administer this fund.
3. CNE's role is to market the program to hospital employees, provide homebuyer education, and carry out loan-origination, underwriting and loan-servicing functions.

After the first year of operation, 18 employees had purchased homes, an additional 16 had loans in process, and seven were in counseling, working toward eventual home ownership. Homebuyers ranged from service workers (maintenance, dietary and housekeeping) to a physician. The first \$50,000 invested by the hospital leveraged over \$600,000 in mortgage money from local financial institutions.

Based on the positive experience of this effort, CNE is adapting and expanding the program to additional employers. Focus groups of 12 area employers were held to promote the program. The chief financial officer of Memorial Hospital participated in these groups in order to communicate directly the hospital's satisfaction with the program.

Yale University Homebuyer Program

Yale University in New Haven, Connecticut, has developed a highly successful approach to stimulating home purchases in the city. The university provides a grant to its employees of \$2,000 per year for 10 years, and a bonus grant of \$4,000 for closing costs or home rehabilitation expenses.

The key components of this program are:

1. The program is available to any Yale University employee who meets certain employment thresholds. Participants must commit to own and reside in the home purchased for at least two years from the closing date.
2. A participant must buy and occupy a single-family, two- or three-unit home, or a condominium in one of six target neighborhoods, all close to the university.
3. Yale works with the city of New Haven and various nonprofits to conduct homebuyer education as a way of promoting this program. Yale also conducts neighborhood housing fairs to attract employees to the program and to help them learn about the various neighborhoods. The university also markets extensively to its employees through newsletters and direct mail.
4. Employees are free to use any lender they wish and often take advantage of city and state home financing assistance programs.

In the first two years of the program, 227 Yale employees purchased homes in New Haven, entailing a \$4 million financial commitment from the university. More than half the homes purchased in New Haven were bought by Yale employees through the university's program.

Approximately 35 percent of the participants are clerical staff, 32 percent are faculty members, 22 percent are management and professional staff, and 11 percent are service and maintenance workers. Two-thirds are first-time homebuyers and about half are female-headed households.

University of Pennsylvania Mortgage Guaranty Program

One of the oldest university-sponsored employer-assisted housing programs is at the University of Pennsylvania. The program began operation in the mid-1960s. The objective of the program is two-fold: first, to benefit employees by enabling them to become homeowners, and second, to maintain the residential integrity of the neighborhood surrounding the university.

The components of this approach are as follows:

1. The university provides a full guarantee on the mortgages of its faculty and staff.
2. Employees must have at least three years of service and the home purchase must be located within a 25-block radius of the campus. There is no limit placed on the cost of the home, nor are there income limits for participating in the program, other than the ability to meet the normal underwriting requirements of the lender.

Since the plan's inception, over 1,000 loans have been guaranteed, with only two defaults.

Emanuel/Legacy Health System Neighborhood Home-Ownership Program

Emanuel Hospital, part of Legacy Health System in Portland, Oregon, has developed an employer-assisted home-ownership program aimed at revitalizing specific neighborhoods around the hospital. These neighborhoods were beginning to show signs of disinvestment. In addition, the hospital had erected a new building and in the process had torn down several houses, raising community opposition. In order to improve its relationship with the neighborhood, promote positive neighborhood investment, and provide benefits to its employees, Emanuel developed a down-payment assistance program for its employees.

The key components in this program were:

1. The hospital has made a significant financial contribution. Since 1991 Emanuel has invested \$150,000 per year in this program: \$100,000 is allocated for down-payment assistance for employees; \$50,000 is available for operating grants to nonprofits that provide home-ownership counseling and build and renovate homes in the neighborhood.
2. The hospital provides a forgivable loan up to \$5,000 or 10 percent of the purchase price of the home, whichever is less, to employees with at least one year service. The loan principal is reduced by 20 percent each year and is treated as taxable income for employees. Employees pay an annual rate of 8¹/₂ percent. Payment is made through payroll deduction.
3. The program has minimal restrictions. There are no income restrictions. Employees must have at least 2 percent cash as a down payment, be employed in good standing, and purchase within a designated target area. When the program was begun in 1991, assisted

purchases were limited to homes priced at less than \$65,000. Subsequently, as values have begun to rise, that limit has been raised to \$85,000.

Since 1991, 80 employees have purchased homes in the designated neighborhood out of a total of 5,500 eligible employees. Moreover, neighborhood conditions are improving as more private renovation is occurring.

Municipal Governments

In many cities, municipal governments are major employers. At the same time, municipal governments are struggling with declining home-ownership rates. In recent years municipal governments have increasingly become involved in home-ownership promotion among their work forces, in particular among public safety employees and teachers.

Baltimore City Employee Home-Ownership Program

The purpose of the Baltimore City Employee Home-Ownership Program was to increase home ownership in Baltimore by providing city employees with an incentive to buy a home in the city. The city's work force of 25,000 employees was viewed as a potential market, and surveys conducted by the city indicated a substantial number of employees earning in the \$24,000-\$36,000 range were interested in owning a home in Baltimore.

Key components of this program were:

1. The city developed a financial-incentive package to assist employees with down-payment and settlement costs. The plan matched the employee's down payment up to \$2,500 and provided an additional \$7,500 as a deferred loan over a 10-year term.
2. The city marketed the program extensively through presentations in city departments, distribution of brochures, and notices with paychecks. The city also required and provided homebuyer education.
3. The city budgeted \$2 million, allocating CDBG and HOME funds, as well as UDAG repayments. HOME and CDBG funds carried income restrictions and were used for employees who met income guidelines, but UDAG repayments were less restrictive. This was important because the city wanted to motivate as broad a group as possible to buy in the city.

This program was an enormous success. The funds allocated were spent in less than a year. In all, 213 city employees bought homes. Approximately 40 percent of those were police officers, firefighters and teachers — groups the city had hoped to reach. The city is looking at continuing this program although with less subsidy, and expanding the base of employers participating.

Logan Square Housing Program for School Personnel

In Chicago's Logan Square neighborhood, the impetus for a program to help local public school employees buy homes in the neighborhood came from a local community organization, the Logan Square Neighborhood Association (LSNA).

As part of its comprehensive community planning work, LSNA sought to create a housing program that would help build a stronger connection between schools and the local community. LSNA focused on creating a housing program to encourage teachers and other school personnel to buy in the community.

Through a series of meetings with school personnel, LSNA came to understand some of the barriers school employees faced in the home-ownership process. LSNA worked with a group of lenders to create a loan product with an interest rate 0.25 percent below market rate and to waive application and appraisal fees.

Eligible properties were one- to four-unit properties in a designated area. Eligible buyers were households with at least one full-time school employee. LSNA provided homebuyer education and additional postpurchase counseling and support.

Fourteen local school employees participated in the program. The success of this local model has led the Chicago Board of Education to consider replicating this program throughout the system.

City-Wide Initiatives

Given the success of certain employer-driven home-ownership initiatives, several cities are working to promote employer-assisted efforts on a broader scale. Some of these efforts are led by city government, others by major employers or nonprofits. In either case the theme that runs through these efforts is partnership among all the entities that can make the program successful.

Select Milwaukee

Select Milwaukee is a nonprofit that develops and administers “walk-to-work” programs for employers in the city of Milwaukee. It acts as a central source of information, program planning and technical assistance for companies that are interested in developing employer-assisted home-ownership programs. Select Milwaukee is funded by the state of Wisconsin and the city of Milwaukee.

The key components of the Select Milwaukee approach are:

1. Along with the basic rationale for employer-assisted home ownership — employee benefit and neighborhood revitalization — Select Milwaukee also promotes employer-assisted home ownership as a way of helping companies meet Clean Air Act requirements to reduce single-occupancy vehicle travel to and from the workplace.
2. Select Milwaukee has developed programs with a number of major and smaller employers in the city. These include Sinai Samaritan Medical Center, Harley-Davidson, WISN-TV and Radio, Northwestern Mutual Life, and the Greater Mitchell Street Association.

3. Each company provides a small forgivable loan (\$1,500–\$3,000) to employees, which is supplemented by a grant from Select Milwaukee.

NHS of Milwaukee has developed an important linkage with Select Milwaukee. When Select Milwaukee was in the early stages of developing a program with Harley-Davidson, NHS was called upon to link company representatives with community leaders in a neighborhood adjacent to company headquarters. Meeting with residents and touring the neighborhood gave company representatives encouragement to develop an employer-assisted program.

The City of Lawrence Employer-Assisted Home-Ownership Program

This effort to encourage employer-assisted home ownership in Lawrence, Massachusetts, was initiated by a local lending institution, First Essex Bank.

Lawrence, historically dependent on the textile industry, began a decline in the 1950s, losing population and its economic base. Despite this decline a fair number of family-owned businesses still remain.

First Essex approached the mayor of Lawrence with a plan to promote home ownership and encouraged the mayor, in turn, to encourage local businesses to participate. The city of Lawrence, First Essex, Malden Mills (the city's largest employer with over 3,300 employees) and KGR, a clothing manufacturer, all participated.

The primary mechanism for motivating employees was an attractive financing package. Each employer agreed to provide down-payment assistance of \$1,500. Additional down-payment assistance of \$1,000 was provided by the city. First Essex waived processing fees and closing points on the first mortgage. For properties that needed rehab, the city offered special deferred or low-interest loans through the HOME Program for income-eligible borrowers.

Since the program was introduced in 1994, 62 employees have purchased homes. A larger group of employers is expanding the program with a broader base of resources.

Coastal Housing Partnership of Santa Barbara

In Santa Barbara, California, a consortium of 15 public and private employers joined forces with a local lender to aid their employees with home purchases in a high-priced real estate market. This consortium, called the Coastal Housing Partnership, worked out an agreement with a local lender to secure favorable financing for their employees in return for certain corporate banking arrangements.

Employees of participating companies are eligible for an 80-percent loan from the lender at a favorable interest rate. In addition, the lender makes a second mortgage to the employees with one point, at a rate two points above the cost of funds. In effect, employees have a 90-percent mortgage

with a reduced interest rate, but still must make a 10-percent down payment. In return, employers in the partnership have established special banking relationships with the lender.

This model is attractive to employers because it requires no outlay of cash. The weakness of this approach is that a fairly significant down payment is required, and, since the loans are issued directly through the bank, there is no incentive for the employee to remain with the employer. It is worth noting, however, that individual employers working through a consortium were able to negotiate a favorable loan product with lenders.

State Efforts

In 1989 the New Jersey Mortgage Finance Agency developed a \$23 million housing-assistance package called Home Ownership for Performing Employees (HOPE). The purpose of HOPE was to respond to the labor shortage that affected New Jersey businesses — a shortage due primarily to the lack of affordable housing in suburban locations. HOPE was designed as a tool for employers to help their employees overcome some of the typical entry-cost barriers.

The main feature of this program was a loan guarantee by employers for between 10 percent and 20 percent of the loan amount of its employees' loans for up to five years. Because of this loan guarantee, employees could roll a substantial portion of down payment and closing costs into the mortgage loan. The HOPE program also provided a below-market interest rate first mortgage with a graduated-payment feature, making the payments early in the life of the loan more affordable.

The program required careful scrutiny of the financial status of the employee before entry into the program was approved. This was done so that the risk to the employer in guaranteeing these loans could be ascertained. Because the primary feature of the program was a loan guarantee by the employer, there were no direct costs to the employer except through default. In the first year of operation, 14 companies were enrolled in the program.

A second effort, currently being developed in Maryland and with the strong involvement of a nonprofit, is called Live Near Your Work. Given the success of the initiative carried out by the city of Baltimore, the state of Maryland issued a request for proposals to develop a program in other jurisdictions. Neighborhood Housing Services of Baltimore responded to this request and was selected to develop a program.

As it is currently being developed, the program would operate in three jurisdictions: Baltimore City, Salisbury, and a place yet to be determined. Employers participating in the program provide a \$1,000 grant to employees which is matched by a \$1,000 grant from local government and a \$1,000 grant from the state.

Labor Initiatives

While not an employer per se, organized labor may have an increasing role in pushing for housing benefits for workers. A 1989 amendment to the Labor-Management Relations Act of 1947 created financial assistance for employee housing as a new employee benefit available for collective bargaining. There are few models of union-based employee home-ownership programs currently operational. Unions, however, do provide access to a large group of modest-income working families. An example of this can be found in New York City, where Neighborhood Housing Services (NHS) of New York developed an innovative partnership with Local 1199, which represents hospital workers.

NHS provides homebuyer education to union members of Local 1199, many of whom are recent immigrants from the Caribbean. NHS offers group homebuyer education at union headquarters. The first phase is an hour-and-a-half introduction to home ownership. At the end of the session, participants are asked to fill out a prequalifying form and an authorization for NHS to do a credit report. The members who are prequalified are invited to a second session where more detailed information on family budgets, the purchase process and financing are explained. For those members who may have savings or credit deficiencies, individual counseling by NHS is available.

After the second session, union members are given a certificate and encouraged to begin their search for a home. NHS staff follow up with individual customers and help them access the home-purchase loan products offered by NHS. By the summer of 1996 NHS had counseled 2,347 families through this union-sponsored program and over \$19 million in first mortgages had been packaged.

The models presented here reflect some, but clearly not all, of the activity currently taking place in the area of employer-assisted home ownership. New models are constantly being developed. These case studies illustrate the range of partnerships and program tools currently in place for employers to expand home-ownership opportunities for their employees. As models they can be instructive to nonprofits as they seek to develop employer-assisted home-ownership programs in their areas.

DEVELOPING AN EMPLOYER-ASSISTED HOME-OWNERSHIP PROGRAM

The number of employer-assisted home-ownership programs either in place or being developed has expanded in recent years and is likely to continue. For nonprofits, employer-assisted home ownership is an opportunity to expand their own home-ownership efforts, and to enlist new partners and perhaps bring in new resources. This section will outline the reasons nonprofits might wish to develop employer-assisted home-ownership programs and how nonprofits might develop a strategic approach with local employers.

The Hewitt Associates study cited earlier in this article describes a study carried out by the American Institute of Affordable Housing that indicates the potential benefit of employer-assisted home ownership for employees. Interviews with over 1,000 non-homeowner employees, 18 to 44 years of age and from all over the country, revealed that 75 percent view home ownership as a very important financial priority. The interviews of potential homebuyers also indicated the following:

- 60 percent view down-payment requirements as their greatest barrier;
- 44 percent do not expect to be able to save enough money for a down payment without some assistance;
- 67 percent would be interested in a five-year forgivable loan with 20 percent forgiven each year, in order to be able to purchase a home.

These responses are not surprising to nonprofits engaged in home-ownership work. They do attest to the solid market of new customers that exists within major employers.

Why Look At Employer-Assisted Home Ownership?

There are several important reasons why nonprofits might want to develop employer-assisted home-ownership programs with local major employers.

Employer-assisted strategies can help nonprofits reach untapped markets.

A fundamental question for nonprofits marketing home-ownership products is: “Who are the target markets for home ownership and how can we reach them?” Building relationships with local employers helps nonprofits reach a market of modest-income working people.

Employer-assisted strategies can build homebuyer demand in neighborhoods.

The absence of demand for home ownership is a factor that affects many neighborhoods in which nonprofits work. Particular employers, like local hospitals, typically have a concern about the health of their surroundings. Helping create home-ownership demand by stimulating home purchases by

employees in specific neighborhoods can be a win-win situation for the nonprofit and the employer.

Employer-assisted strategies can be a vehicle for using existing loan products.

Nonprofits throughout the country have been very creative in crafting loan products to overcome the barriers to home ownership. By linking with major employers, nonprofits can create new opportunities to get these loans on the street by focusing on an already-employed market segment.

Employer-assisted home-ownership strategies can create new partners.

A local employer working with a nonprofit to expand home-ownership opportunities can be a powerful new partner. Successful work with one employer can be leveraged to build relationships with other employers, potentially bringing new resources to the nonprofit.

The Value-Added Benefits of Nonprofits

It is important when conceptualizing an employer-assisted strategy to think not about what the nonprofit needs from the employer, but what a nonprofit is giving to an employer. In effect, the primary reason a nonprofit would advance this concept is because it can add value to an employer's enterprise. The approach to an employer, therefore, should be structured to address the employer's needs. The resources required from the employer need to be put in a cost-benefit context, i.e., "Is the benefit I receive from this worth the resources?"

What are the benefits to an employer of developing an employer-assisted home-ownership program? To summarize from this report, those benefits are as follows:

1. Employer-assisted home ownership can help give employees new status and responsibility and increase their commitment to stay employed.
2. It can stabilize the surrounding neighborhood.
3. It can reduce turnover and employee training costs.
4. It can build employee motivation and loyalty.
5. It can demonstrate commitment to the community.
6. It may help in the relationship with units of local government.

Not all of these reasons have the same weight for every employer. Hospitals, for example, may place more emphasis on the health of the surrounding community because they need to attract patients and staff. Having employees close by is also important because many hospital employees work third shift and this would offer a shorter commute.

While employers may accept the benefits of assisting employees buy homes, they are not in the housing business. This is where nonprofits can be resources to the company. The Full-Cycle LendingSM approach of NeighborWorks[®] organizations provides a major enhancement to any employer considering promoting home ownership among employees. Nonprofits can provide the necessary marketing services in conjunction with the employer, and can carry out homebuyer education for employees. Most important, many nonprofits have the capacity to administer loan funds. They can help set up financing for employees and provide counseling after home purchase so that employees can be successful homebuyers.

For an employer to develop this capacity on its own would be cost-prohibitive. At the same time these activities represent a cost for the nonprofit which needs to be compensated as part of the program design.

Developing the Program

There are several steps involved in setting up an employer-assisted home-ownership program. First, the nonprofit conducts research in order to know as much as possible about the employer and possible relationships the nonprofit may already have with that employer. Second, a strategy for approaching the employer is developed which attempts to learn about the employer's self-interest and how this kind of program could be positioned to advance that interest. A key piece is determining the right kind of financing product that meets that self-interest of the employer and can be delivered by the nonprofit. Finally, a strategy for approaching employees is developed with the employer.

Research

It is important to know as much about the employer as possible, for example, what they do, how many employees they have, if they are affiliated with any other companies or, in the case of hospitals, if they are part of any larger health systems. It is very important to know who is on the board of directors to determine if the nonprofit already has a relationship with the company.

Of particular importance is where the company has its banking relationship. That bank may already have a relationship with the nonprofit and therefore should be used to establish contact with the company. This can be an effective way for the nonprofit to utilize its lender partners to expand the program.

Another key piece of research is to ascertain if the nonprofit has already provided assistance to employees of the targeted employer. Being able to describe anecdotally how the nonprofit helped one of its employees can help make real the concepts of what the nonprofit can do. Finally, it is beneficial to know about other employer-assisted models. This information can be drawn from several of the "Winning Strategies" case studies developed by NeighborWorks[®] America and from reading this booklet.

Approaching the Employer

A good and succinct outline for a presentation to an employer has been developed by Chattanooga Neighborhood Enterprise (CNE). After their successful initiative with Memorial Hospital, CNE saw an opportunity to expand this effort to other companies.

CNE put together a presentation describing the benefits of its employer-assisted program. This presentation was created with Microsoft PowerPoint and presented using a laptop computer. The reason it is presented here is because it provides a good model presentation for a nonprofit, outlining a set of major points that need to be covered. A more detailed description of the partnership between CNE and Memorial Hospital is provided in “Winning Strategies” number 45.

Outline of “Employer-Assisted Housing: The Pitch to Employers”

By Kenneth A. Gross & Milli Hammer, Chattanooga Neighborhood Enterprise

1. What Is Employer-Assisted Home Ownership?

2. Company Objectives

- Provide cost-effective employee benefit
- Acceptable rate of return on corporate benefit
- Stabilized workforce
- Enhance employee standard of living
- Much of the initial contact can be done on company premises to reduce the employee’s time away from work

3. Additional Benefits to the Company

- Improved employee morale
- Image-enhancing community and social benefits
- High visibility as partner in revitalization of the city
- A more stable personal environment can reduce employee stress
- Increased employee loyalty

4. Employer’s Role

- Establish guidelines for the program
- Pay one-time fee of \$5,000 to CNE for administration
- Establish employer cash advance amount (\$400)
- Fund loan pool when needed (\$50,000 increments)

- Authorize participants as requested
- Distribute marketing materials to employees

5. *The Employee Benefits Because of This Program*

- Creates an opportunity for home ownership
- Demonstrates that the employer really cares
- Creates nontaxable financial assistance to purchase a house
- Provides easy access for employees because meetings take place on company premises

6. *Employee's Role*

- \$840 down payment (includes \$100 fee for "FasTrak to Home-Ownership" training)
- Attend "FasTrak" seminars (Saturday or evening)
- Demonstrate commitment to qualify

7. *CNE's Role*

- Provide "FasTrak" education to participants
- Administer marketing
- Conduct orientation meetings
- *Take applications*
- Approve and close loans
- Provide postpurchase and delinquency counseling as a means of foreclosure prevention
- Serve as plan administrator
- Report results to employer

8. *Cost Analysis*

- Rate of return on invested funds currently approximates 4 percent
- One-time administrative cost to company (\$5,000)
- Additional employee meetings covered in one-time cost
- Postpurchase counseling provided at no cost

9. *Key Benefits*

- Program is cost-effective
- Employer's funds are invested, not given away
- Employer can withdraw from program within the term of the agreement
- Employer is insulated from the day-to-day management of the program because CNE is responsible for decisions within guidelines established by the employer
- Program benefits the community where the employer is located

EMPLOYER OBJECTIVES AND PROGRAM DESIGN

It is important, through discussion with the employer, to determine what objectives the employer is trying to meet. This is an important consideration in setting up the program.

For example, an employer who is seeking to lower the rate of employee turnover can provide loans that are forgiven over time, creating an incentive for employees to stay. An employer could also defer loan repayments, making it possible for employees at low wages to become homeowners early on, and then as wages increase, pay back the loan. An employer can seek to encourage savings by employees by initiating a matched-earnings program, matching down payments saved by employees on a dollar-for-dollar basis. An employer particularly interested in neighborhood stabilization can limit the program to specific neighborhoods.

Whatever objectives the employer is trying to meet, it is likely that some kind of initiative can be structured to meet those objectives. In any case, it is important to ascertain those objectives before suggesting a specific program model.

Tax Issues

Another important component in presenting to the employer is to research some of the tax implications of an employer-assisted home-ownership program. From experience in the field, it appears that a direct grant or forgivable loan made by an employer to an employee needs to be reflected as income on the employee's W-2. Contributions or loans to a loan fund that require repayment have no tax implications for the employee. Any additional amount that is reflected as income to an employee and is taxable will most likely be offset by the mortgage-interest deduction that homeowners receive.

Reaching Employees

A key lesson learned from the CNE/Memorial Hospital model was the importance of having the chief executive officer of the hospital give visible support to the program. This was a critical factor in getting the necessary support within the institution needed to make the program work.

Line staff in some ways saw this program as an intrusion. The hospital president sent an endorsement memo to staff, and executive staff attended orientation sessions, to show the hospital administration's support. Even with the support of the top administration, CNE needed to carry out many of the marketing functions originally assigned to the hospital in order to reach customers.

A second key lesson is that it is beneficial for the nonprofit to play a direct role in program marketing. Nonprofits can answer directly questions about home ownership, the loan process, and the neighborhood, all critical components in convincing employees to buy a house.

As in any outreach effort to new buyers, homebuyer education is key. In this area, nonprofits can add substantial value to an employer and to employees. In situations where the employer is seeking

to target a specific adjacent neighborhood as a means of stabilization, specific attention needs to be paid to promoting the assets of this area. Employees may have a negative perception about the area that can be countered through the testimonials of neighborhood residents, house tours, and information about the positive changes that are taking place there. These are important pieces to include in any outreach effort.

CONCLUSION

Interest in employer-assisted home ownership appears to be growing around the country. Municipal governments are increasingly looking to this strategy as a way of stabilizing neighborhoods through home purchases by their employees. And the number of private companies interested in embracing this strategy, though small, is growing. As nonprofits increase capacity in the practice of Full-Cycle LendingSM, there may be new opportunities to connect with employers and reach new markets of potential homebuyers. The information contained in this sourcebook can provide a grounding in the issues and practice of employer-assisted home ownership.



NeighborWorks® America
1325 G Street NW, Suite 800
Washington, DC 20005
(202) 220-2300
www.nw.org