

# Self-Help: National Initiative to Bring Lease Purchase to Scale

## Secondary Market Initiative to Help Absorb Excess Inventory

Nonprofit community development corporations face a conundrum. Prices are falling in virtually all markets, and increasingly there are units available at prices low and moderate income people can afford.

Vacant, boarded up units drag down adjacent property values, putting the rest of the neighborhood at risk. Where are the buyers for these bargains?

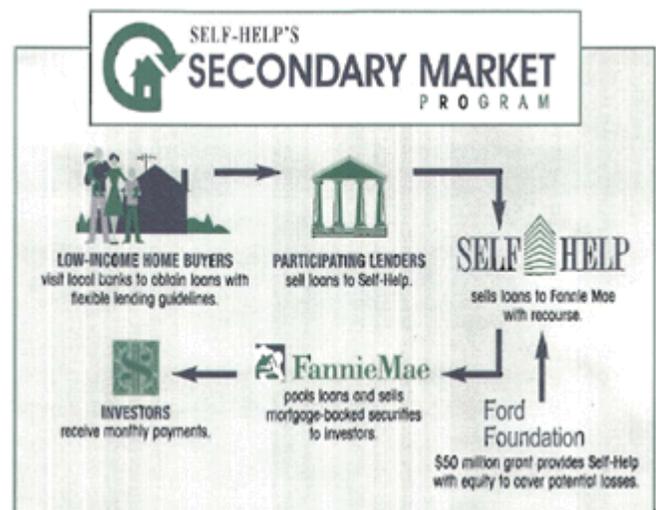
Neighborhoods desperately need homeowners to take over the vacant stock which is dragging down values and becoming attractive to investors looking for cheap rentals. Nonprofits have the capital and expertise to buy, renovate, and re-sell single family homes. But where are the buyers?

Many of today's community development leaders experienced the housing downturn in the early 1990s that was caused by the savings and loan crisis. They know that housing markets are cyclical; this current market correction is painful, and seems endless. Yet in many markets prices are hitting bottom and before long they will begin edging back up. It will never cost less, in subsidy terms, to help low-income families buy their first home, as prices have dropped. Now is the right time to help the next generation of buyers.

This awareness is behind Self-Help's effort to develop a national lease-purchase initiative that will help buyers move into houses and, within a one to five year period, improve their credit and savings to the point where they can purchase the property. Local nonprofits will buy single-family properties using a Fannie Mae mortgage product, and lease them to families who are not yet mortgage-ready but can get there within the five-year time frame. Self-Help will purchase those loans, and the tenants can assume the mortgage when they meet predefined requirements.

The lease-purchase concept is not new. It emerged in the wake of the savings and loan crisis in the early 1990s, at a time when there was also a glut of vacant units at a reasonable price and a dearth of eligible buyers. In recent years, lease-purchase has faded from view because subprime lending offered non-conventional borrowers another entry point into the market. Now that credit has tightened, lease purchase is once again emerging as an attractive alternative. Self-Help, a North Carolina-based nonprofit that works at the local and national levels to create ownership and economic opportunity, is leading the charge.

"For many years Self-Help has acted as a secondary market for affordable housing loans across the country" explains Vanita Kalra, a Real Estate Associate at Self-Help. "Through a partnership with Fannie and the Ford Foundation, we have done about \$4.5 billion in loans, serving 50,000 families. That's the way Self-Help brings its mission to scale. By making the permanent financing easier to obtain, we think we can help bring the lease-purchase program to scale in a way it has never been before." While much of the work- and control- of the lease-purchase program will remain in the local communities, by providing the permanent financing using a Fannie Mae product Self-Help can jumpstart creation of new programs. Self-Help is negotiating agreements with financial institutions to do lease-purchase loans in a number of communities, but it will also work with nonprofits to bring local lenders to the table.





A unit in the Peachtree Hills subdivision.

A pilot is currently under way in Charlotte, North Carolina, where Self-Help's own CDC operates. The city of Charlotte is anxious to stabilize a relatively new subdivision (Peachtree Hills) that has been hit hard by foreclosures. The city is working with Self-Help CDC and Charlotte-Mecklenburg Housing Partnership (CMHP) to create a comprehensive approach to stabilize the community. Peachtree Hills was started in 2003 and comprises 147 units, although not all of the units were built before the market slumped. As of January 2008 there were about 40 vacancies, and at least 42 of the properties had been foreclosed on or owned by a bank since 2003. While there are homeowners who take evident pride in their homes, they are losing ground to vandalism, rising crime, and a continued erosion of

the homeowner base. "Copper miners", thieves who strip valuable copper wiring from homes, are breaking into the vacant units. The Charlotte-Mecklenburg police responded 360 times to calls in Peachtree during the last year, averaging almost one visit a day. Given its current reputation, few families are interested in buying there and it is threatening to spiral out of control.

In the pilot, the Self-Help CDC will purchase up to 25 vacant units using Self-Help's lease-purchase product. The CDC will hold and manage them until a buyer is able to assume them. The CDC will do minor rehab, mostly new paint and carpeting, to make the units more attractive, and it will use a network of counseling agencies and realtors across the city to attract lease-purchasers and outright buyers. CMHP, a NeighborWorks® organization and HUD-approved housing counseling agency, will provide financial counseling and education to lease-purchasers to prepare them for homebuying. The city of Charlotte will make infrastructure improvements to enhance the subdivision's curb appeal and to provide support to the emerging homeowners association to organize the residents. Finally, the CDC has hired a property management firm to manage the units during the lease period.

Good prospects for the lease-purchase program will be individuals or families with at least a 12 month work history, and sufficient income to afford the rent. Initially credit will not be a factor, because over the next one to five years they will work to repair their credit and build their savings. A portion of tenants' monthly lease payment will be set aside in an account to build savings towards downpayment and closing costs. Once tenants' credit scores improve and other requirements are met they will be eligible to assume the loan from the Self-Help CDC.

While piloting this approach in Charlotte, Self-Help is already seeking other partners in cities across the country. "We know it will be difficult for communities to absorb stock in the near turn, which makes lease-purchase a great option" says Self-Help's Kalra. "We see this as another tool in the toolbox for CDCs; it isn't the only answer, but under the right scenarios it can really help." This may be the right option for non-profits currently holding new inventory that was under construction just prior to the peak of the market. With prices tumbling, buyers are few and far between. Not only are nonprofits potentially taking a loss on the sales, they are carrying the full project cost with no relief in sight. A lease-purchase program can be a good strategy to fill those units and create a revenue stream from rents.

Lease-purchase may be a useful strategy for nonprofits who are sitting on new inventory that was built near the market peak, and who are facing both high carrying costs and losses on the sale of the units.

Self-Help is seeking local partners with the capacity to acquire, renovate, and re-sell single family properties, as well as expertise in locating and counseling prospective lease-purchase participants. Aside from ensuring

local groups have the ability to deliver qualified buyers at the end of the lease period, Self-Help has no prescribed model for how local groups should run their programs. They can purchase units in scattered sites, or in clusters as in the Peachtree Hills subdivision. They can focus on units in need of substantial rehabilitation, or target homes in newer subdivisions. “It’s all according to what makes sense for their local market, and what they feel comfortable taking on,” Kalra says.

The lease-purchase program will not be for everyone, but it could be a useful strategy for those concerned about absorbing excess inventory. For more information, contact Vanita Kalra at [Vanita.Kalra@self-help.org](mailto:Vanita.Kalra@self-help.org).

### **Best Practices**

1. The lease-purchase concept has been around for years, but relatively few nonprofits have operated one at any scale. By using a standardized, Fannie Mae mortgage product and making it available nationwide, Self-Help is removing one of the obstacles to nonprofits interested in adding this program to their programming.
2. Self-Help recognizes that nonprofits will need to vary their lease-purchase program design in order to meet their local customs, practice or funding. It is not prescribing how the program should operate, but simply requiring that there is a plan in place to help lease-purchase tenants prepare to assume the mortgage within a five-year time frame. In order for tenants to assume the loan they will also have to meet pre-defined criteria.