

# **The ECHO Program: Equity Conversion & Homeownership Opportunity**

## **HOW THE COMMUNITY PRESERVATION ACT AND OTHER HOUSING TRUST FUNDS CAN BE USED TO ASSIST LOWER-INCOME HOMEOWNERS WHILE PROVIDING LONG-TERM COMMUNITY BENEFITS**

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Every community has current residents whose incomes would make them potentially eligible for assistance under the housing component of the Community Preservation Act.

Many of these residents are homeowners. Most have probably lived in the community for many years and would like to continue to reside in the community. Some, though, may be finding it difficult on their modest incomes to keep up with their current housing costs, undertake necessary maintenance and repair of their homes, and also meet their other basic needs adequately. While many homeowners in such circumstances are elderly, others may be single mothers who, when their marriages broke up, were left with the kids, the house and the mortgage payments. "Community preservation" includes preserving the opportunity for these elderly and non-elderly residents to continue to be part of the community.

The resources raised through the Community Preservation Act and/or other housing trust funds make it possible to provide financial assistance to lower-income homeowners so that they can remain in the community and maintain their homes -- if certain conditions are met. Specifically, the financial assistance provided to a homeowner would be in exchange for a long-term affordability restriction, which has the effect of ensuring that when the house is sold it will be affordable to and sold to a buyer who meets the same income eligibility standard as the current owner.<sup>1</sup> Indeed, with appropriate income and resale conditions it may be possible for such houses to be counted toward the community's Chapter 40B requirement.

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<sup>1</sup> The concept of purchasing a long-term affordability restriction from a homeowner is analogous to the purchase of a conservation restriction, historic preservation restriction, agricultural preservation restriction or watershed preservation restriction. Indeed, the very same state statute, Mass. General Laws, Chapter 184, Section 31, which defines these other types of real property restrictions, also defines an "affordable housing restriction" as "a right, either in perpetuity or for a specified number of years, ... (a) limiting the use of all or part of the land to occupancy by persons, or families of low or moderate income in either rental housing or other housing or (b) restricting the resale price of all or part of the property in order to ensure its affordability by future low and moderate income purchasers or (c) in any way limiting or restricting the use of enjoyment of all or any portion of the land for the purpose of encouraging or assuring creation or retention of rental and other housing for occupancy by low income persons and families." Purchasing an resale/affordability deed restriction with CPA funds should therefore permit the term to be perpetual, as required by Section 12(a) of CPA, which states that "A real property interest that is purchased with monies from the Community Preservation Fund shall be bound by a permanent deed restriction ...."

## Program Concept

How might such a program work? Suppose that an income-eligible homeowner has a house with a market value of, say, \$230,000 (The committee administering the CPA or other housing trust fund could establish an upper threshold of value for eligibility). Suppose that in order for this house to be affordable to a buyer who is also income-eligible, the price could not be greater than \$180,000.<sup>2</sup> The difference between these two amounts, \$50,000, which we can call the "conversion equity," is the amount of financial assistance that the homeowner would be eligible for.

In principle (and not prohibited legally by CPA), the conversion equity could be paid for in one lump sum as the purchase price for the homeowner's granting an affordability resale restriction. However, since the preservation purposes of CPA include physical preservation of the property as well as preservation of affordability, it would be better if payment were not simply an unrestricted lump sum, as long as the present value of the assistance provided is equal to the conversion equity. I therefore propose that the conversion equity consist of two elements: (a) a home repair grant; and (b) an annuity.

The home repair grant is intended to ensure the long-term physical viability of the house. The scope of necessary repairs and eligible cost would be determined by an independent professional hired by the program, who would also inspect the work and authorize payment to the contractor who does the work. Such programs are well-established across the country using federal CDBG funds. Let's suppose for purposes of illustration that in this case, the home improvement grant would end up being \$20,000.

The second element is an annuity, which would provide the owner with a steady long-term income stream. In the case of an elderly homeowner the annuity would guarantee the income stream for life, with the amount actuarially determined on the basis of life expectancy. In the case of a non-elderly owner, it might be for a fixed term, say 20 years. CPA funds in the amount of the conversion equity net of the home repair grant would be used to purchase an annuity from a reputable financial institution.

Assume for purposes of illustration, a 20-year life-expectancy or fixed term. A 20-year, \$30,000 annuity, paying an assumed interest rate of 6 percent, would yield an income of \$215 a month or \$2,580 a year. In many cases, this sum is comparable to the homeowner's property taxes, but need not be restricted in how it is used.

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<sup>2</sup> The DHCD website contains a table of units for sale under the Homeownership Opportunity Program (HOP) and Local Initiative Program (LIP) programs. While representing the high end of the price distribution, the following are examples of maximum approved resale prices for 1-4 person households with incomes up to \$52,500, which is 80% of HUD Area Median Income for 4-person households and hence for eligibility toward the 40B inventory: Chelmsford - \$171,000; Dover - \$187,380; Tewksbury - \$195,000; Wilmington - \$178,750. The \$180,000 in this proposal is based upon the same income limit, together with standard assumptions about property taxes, insurance and about first-time homebuyer financing terms.

## **Income Requirements and Chapter 40B**

In order for homeowners to be eligible for assistance using CPA funds they (and subsequent owners) must meet certain income requirements. Specifically, income (after certain deductions for dependents and medical expenses) must be less than 100 percent of the AREA MEDIAN INCOME as established annually by the U.S. Department of Housing and Urban Development (HUD). This income standard is also referred to as the "moderate income" limit. In order for the home to be potentially eligible for inclusion in the Chapter 40B count, current and future owners must be below a more modest threshold: 80 percent of the Area Median Income, which is also known as the "low income" limit. Both the moderate-income and low-income limits are scaled by household size.

If an eligible homeowner meets the low income requirement and there is a long-term resale restriction ensuring affordability for future buyers who are also within the low income limit, then the house may be eligible to be counted toward the community's Chapter 40B inventory. The Local Initiative Program of the Massachusetts Department of Housing and Community Development (DHCD) offers the possibility of having such houses to counted toward the 40B inventory as "Individual Local Initiative Units" without having to go through a comprehensive permit process.

DHCD has, however, raised a major red flag on the question of whether these units would count under toward the 40B housing inventory under the current owner. Their argument is that while the current owner may be cash poor (low income), s/he is house rich, so that if s/he is paid to purchase a deed restriction, there can be problems if there is not equitable treatment of those who do not have such an asset. I have proposed to DHCD a way of resolving this dilemma, as follows: When the relevant portion of an owner's conversion equity has been converted into an annuity, the owner is no longer house rich, because the resale price has been reduced and the resale has become income-restricted; but the owner's annual income has increased by the amount of the annuity payments per year. Therefore, the relevant income standard for the unit to qualify for 40B should be that the owner's *total* income, including both the annuity and income from other sources, would have to be less than 80% of Area Median Income. Regardless of the outcome of this discussion, the house should qualify for 40B with subsequent lower-income owners, for whom the asset issue would not apply.

## **Implementation**

Even if only a small proportion of eligible homeowners were to apply for such a program, there might be insufficient funds to assist all who apply. The use of lotteries to choose among eligible applicants for special housing programs is well established. The town of Westwood, for example, has used lotteries for both homeownership and rental programs and would undoubtedly be willing to share its experience with other communities.

In order for a local CPA Committee to make a request for the local legislative body to appropriate CPA funds for such an equity conversion program it would not be necessary to identify (or even to know yet) which properties and homeowners would be participating, unlike a proposed open space acquisition. It should be sufficient to provide a proposal that

explains the program model, eligibility requirements (in terms of income limits and perhaps maximum property value), selection procedures, administering agency (such as the Local Housing Authority or an appropriate non-profit), amount of funds, and oversight requirements.